

Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs

Insights for Auditors

Overview

Critical audit matters (CAMs) are intended to enhance the auditor's report to provide audit-specific information that is meaningful to investors and other financial statement users. The purpose of CAMs is to shed light on certain matters in an audit that involved especially challenging, subjective, or complex auditor judgment.

In its order approving the PCAOB's standard that included the requirement to communicate CAMs, the SEC stated that this new aspect of the auditor's report "will add to the total mix of information available to investors by eliciting more information about the audit itself — information that is uniquely within the perspective of the auditor, and thus, not otherwise available to investors and other financial statement users."

This PCAOB staff guidance focuses on questions that may arise when the auditor is communicating CAMs under [AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#). Additional resources on CAMs can be found on the PCAOB's [new auditor's report implementation web page](#).

Communicating CAMs

For each CAM communicated in the auditor's report, the auditor is required to:

- 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.

AS 3101 includes four elements that the auditor can use, individually or in combination, to describe how the CAM was addressed in the audit: (1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter.

The description of how the CAM was addressed in the audit provides investors and other financial statement users with additional information about the audit. The intent

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What, why, how, and where of CAMs

The four aspects of the CAM communication requirements can be thought of as the what, why, how, and where of CAMs.

- What: Identification
- Why: Principal considerations
- How: How the matter was addressed, and
- Where: Reference to financial statement accounts or disclosures

This guidance was prepared by PCAOB staff to help firms when implementing CAM requirements. This staff guidance document sets forth the staff's views on issues related to the implementation of the rules and standards of the PCAOB. It does not constitute rules of the Board, nor has it been approved by the Board. It supplements PCAOB Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* (June 1, 2017).

is to provide a summary that is useful to investors, and not to detail every aspect of the auditor's response or approach.

Language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the CAMs or the auditor's opinion on the financial statements is not appropriate and may not be used. The language used to communicate a CAM should not imply that the auditor is providing a separate opinion on the CAM or on the accounts or disclosures to which the CAM relates.

The auditor is not expected to provide information about the company 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 that a matter is a CAM or how the matter was addressed in the audit.

Staff FAQs

1. How should auditors describe the principal considerations that led them to determine a matter is a CAM?

The description of the principal considerations is meant to provide a clear, concise, and understandable discussion of why the matter is a CAM, including the especially challenging, subjective, or complex auditor judgments made in the context of the particular audit. The "why" is intended to provide information appropriately tailored to the audit and the matter that helps financial statement users understand the aspects of the audit that stood out from the auditor's perspective.

For example, in developing a description of the principal considerations that led the auditor to determine that the goodwill impairment assessment for a reporting unit is a CAM, the auditor could address questions like:

- What type of valuation technique is used? Is the valuation technique especially complex and, if so, in what ways? What factors specific to the company and the audit contribute to the complexity?
- Is the valuation based on assumptions that are especially subjective (e.g., revenue projections where there is a lack of operating history, new product lines, potential changes in the business environment, or other potential changes from prior periods)?
- Are there underlying factors related to the reporting unit's operations that contributed to the need for especially challenging, subjective, or complex auditor judgment in auditing the impairment analysis, such as prevailing or expected market conditions, changes in product demand, or new product regulations?
- What was the nature and extent of specialized skill or knowledge needed in addressing the CAM? If using a specialist, what was the specialist's area of expertise and for which aspects of auditing the impairment analysis was the specialist used?

2. If describing audit procedures as part of communicating how a CAM was addressed in the audit, what considerations apply?

If the auditor chooses to describe audit procedures as part of communicating how a CAM was addressed in the audit, it is expected that the procedures described would be specific to the CAM and to the audit. General statements about procedures that would

Required CAM introductory language

- Provides the CAM definition
- Indicates that CAMs do not alter the auditor's opinion
- Indicates that the auditor is not providing a separate opinion on the CAMs
- Provides the period(s) to which CAMs relate

Required language if the auditor determines no CAMs

- Provides the CAM definition
- Indicates that there are no CAMs

likely be performed in most audits or in relation to most significant areas of the audit, such as “testing the operating effectiveness of the company’s controls” in the case of an integrated audit, typically do not, by themselves, provide useful information to a reader about how the auditor addressed the particular CAM.

Financial statement users will likely find a CAM communication more useful if the procedures described are linked to the principal considerations that led the matter to be identified as a CAM. For example:

- If a matter was determined to be a CAM because of the degree of auditor judgment involved in evaluating significant assumptions made by management in developing a particular estimate, the description of how the matter was addressed may focus more directly on the procedures the auditor performed to evaluate those assumptions.
- For a CAM related to an acquisition that required auditor judgment in relation to the valuation of assets acquired and liabilities assumed, if control testing is described, the description would focus on the testing of controls addressing the risks related to the valuation assertion (e.g., controls over the assumptions used to value acquired intangible assets or controls over the selection of a discount rate for a discounted cash flow analysis).
- In situations where the use of a specialist was an aspect of how a CAM was addressed, the description could include information about the nature and extent of the specialist’s involvement in performing the audit procedures.

3. If describing the outcome of audit procedures or key observations with respect to a matter, what considerations apply?

In describing how the CAM was addressed in the audit, the auditor may choose to include findings as an indication of the outcome of audit procedures or as key observations about a matter. However, the language used to describe how the CAM was addressed in the audit should not imply that the auditor is providing a separate opinion on the CAM or on the accounts or disclosures to which it relates. For example, a CAM should not indicate that the auditor concluded that the financial statement accounts and/or disclosures related to the CAM are fairly presented in accordance with the applicable financial reporting framework.

4. How do CAM communications relate to company disclosures and other information the company has made publicly available?

While CAMs, by definition, relate to the company’s financial statement accounts and disclosures, a CAM communication also includes the principal considerations that led the auditor to determine a matter was a CAM and how the CAM was addressed in the audit (i.e., the “why” and “how” of the CAM). Accordingly, CAM communications will not simply duplicate disclosures made by the company.

When communicating CAMs, the auditor is not expected to provide information about the company that has not been made publicly available by the company, unless such information is necessary to describe the “why” and “how” of the CAM. In that context, information a company has made publicly available includes all means of public

CAM communication tips

- Present and summarize information in a way that investors will find informative
- Avoid stating that a matter required especially challenging, subjective, or complex auditor judgment without any indication as to why
- Reflect information specific to the circumstances
- Avoid the use of boilerplate language and overly technical accounting and auditing terms
- After drafting the CAM, consider whether the description is so generic that it could be applied to any audit of a company within that industry—if so, consider revising

communication, whether within or outside the financial statements, including SEC filings, press releases, and other public statements.

5. If a CAM is recurring, how should auditors apply the CAM communication requirements?

The auditor determines and communicates CAMs every year in connection with the current period audit. It is possible that a CAM identified in one or more prior periods may also continue to be a CAM in the current period. A CAM may be determined based on the same or different considerations, and the way a CAM is addressed in the audit may be similar or may vary. Regardless of whether a matter was previously determined to be a CAM, the auditor would consider the specific facts and circumstances that existed during the audit of the current period's financial statements, and tailor the communication of the CAM as necessary.

6. Is there a specific order in which CAMs should appear in the CAM section of the auditor's report?

AS 3101 does not specify any particular order of presentation for matters included within the CAM section of the auditor's report. The auditor may consider ordering the presentation of CAMs based on the auditor's judgment of relative importance, an order that corresponds to the presentation of the company's financial statements, or any other order.

7. How do the CAM requirements apply to a dual-dated auditor's report?

If the auditor's report is dual-dated, the new information for which the auditor's report is dual-dated may give rise to one or more additional CAMs or may necessitate modifications to previously communicated CAMs. For example, if an auditor's report is dual-dated because of a subsequent event, the report would include, as applicable, any new CAMs or any modifications to previously issued CAMs arising from the impact of the subsequent event on the audit.

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