

**INVESTOR
RELATIONS:
GET UP TO
SPEED NOW ON
CRITICAL AUDIT
MATTERS**

Starting in the summer of 2019, auditors will be required to communicate critical audit matters (CAMs) in their auditor's reports.¹ Investors with questions about CAMs may turn to a company's investor relations (IR) group for answers.

To help inform IR professionals as they prepare for those conversations, the Center for Audit Quality has developed this list of frequently asked questions about CAMs. While this list is not intended to be exhaustive, it may be especially helpful during the initial phase of CAM reporting.

WHAT IS A CAM?

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. The matter must also be one that (1) relates to accounts or disclosures that are material to the financial statements, *and* (2) involved especially challenging, subjective, or complex auditor judgment.²

WHERE WILL CAMS BE COMMUNICATED?

Auditors are required to communicate CAMs. Thus, CAMs will be communicated in the auditor's report that is included with the company's audited financial statements. There is no prescriptive way to order the CAM communications within the CAM section of the auditor's report; CAMs could be presented to align with the order of the financial statement presentation, the order of relative importance, or some other way.

DO CAMS REFLECT SOMETHING POSITIVE OR NEGATIVE?

CAMs are additional information about the specific audit and are neither inherently positive nor negative. Investors should evaluate information communicated in CAMs in light of *all* information available from the company regarding the company's business and should keep in mind that CAMs are reported in the context of the

auditor's overall opinion on the current-year financial statements. The communication of CAMs does not alter in any way the auditor's opinion on the consolidated financial statements, taken as a whole. Likewise, the auditor is not, by communicating the CAMs, providing separate opinions on the CAMs or on the accounts or disclosures to which they relate.

WILL CAMS BE CONSISTENT FROM COMPANY TO COMPANY?

Not necessarily, for several reasons:

- + The requirements for determining CAMs are principles based, not prescriptive. Thus, the requirements will be applied in the context of the facts and circumstances of each specific audit.
- + The auditor's judgment and the extent of audit procedures performed in each specific audit will influence the determination of CAMs.
- + The determination of CAMs is made each year in connection with the current-period audit. Some CAMs may occur annually, while others may appear in a single period or intermittently.

Because each audit is unique, variation may occur in the matters that are CAMs at companies within and across industries and year to year. Thus, it is inadvisable for investors or others to make assumptions as to why a company has a different number and/or type of CAM than another company.

¹ The Public Company Accounting Oversight Board (PCAOB) CAM requirements are effective for audits of large accelerated filers with fiscal years ending on or after June 30, 2019, and for audits of all other companies to which the requirements apply with fiscal years ending on or after December 15, 2020.

² See PCAOB AS 3101.11.

HOW MANY MATTERS LIKELY WILL BE CAMS?

The number of matters that are communicated as CAMs will depend on factors such as the complexity of the company's financial reporting and the company's business activities. While the standard contemplates circumstances in which the auditor may not identify any CAMs, it is expected that, in most audits, the auditor would determine at least one matter is a CAM.³

WILL THERE BE A CAM FOR EVERY CRITICAL ACCOUNTING ESTIMATE DISCLOSED BY MANAGEMENT?

This will depend on the facts and circumstances of each audit. Not every critical accounting estimate necessarily involves especially challenging, subjective, or complex auditor judgment. The source of CAMs is also broader than just critical accounting estimates; therefore, the auditor may identify CAMs in areas that are not disclosed by management as critical accounting estimates. For example, significant or nonrecurring transactions may often be CAMs.

WHAT TYPES OF MATTERS LIKELY WILL BE CAMS?

The more common CAMs likely will be in those areas involving high degrees of estimation uncertainty and that require significant *management* judgment. Such matters, in turn, usually involve especially challenging, subjective, or complex *auditor* judgment. Examples of the latter include auditing the following:

- + Goodwill impairment
- + Intangible asset impairment
- + Business combinations
- + Aspects of revenue recognition
- + Income taxes
- + Legal contingencies
- + Hard-to-fair-value financial instruments

³ See the note to PCAOB AS 3101.12.

⁴ See page 3 of PCAOB Release No. 2017-001.

HOW WILL INVESTORS USE CAMS?

CAMs represent an opportunity for investors to gain insights about areas of the audit that involved especially challenging, subjective, or complex auditor judgment. As the PCAOB has stated, "In the view of some investors, CAMs will add to the total mix of information, providing insights relevant in analyzing and pricing risks in capital valuation and allocation, and contributing to their ability to make investment decisions."⁴

WHAT OTHER STEPS SHOULD I, AS AN IR PROFESSIONAL, BE TAKING ON CAMS?

Communication is the key to preparing for the communication of CAMs in auditor's reports. Coordinate early and often internally within your company—and externally with your auditors—to understand the matters that may be CAMs, the reason such matters may be CAMs, and how CAMs are addressed in the audit. Understanding the CAMs requirements and undertaking close coordination should help prepare you for potential questions from investors.

WHERE CAN I FIND MORE INFORMATION?

Please refer to the Center for Audit Quality's [collection](#) of resources for more information on CAMs. Additionally, see the PCAOB's [new auditor's report implementation page](#) for resources on CAM requirements. •

ABOUT THE CENTER FOR AUDIT QUALITY

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

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