

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

Insights for Auditors

Overview

The purpose of critical audit matters (CAMs) is to provide audit-specific information that is meaningful to investors and other financial statement users about matters that required especially challenging, subjective, or complex auditor judgment—as one commenter put it, “the things that keep the auditor up at night.” CAMs are determined from matters arising from the audit of the financial statements, and thus are rooted in the financial statements themselves.

This PCAOB staff guidance focuses primarily on questions that may arise when determining CAMs and provides auditors with information on the determination of CAMs under [AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*](#). For a general overview of CAM requirements, see [Implementation of Critical Audit Matters: The Basics](#).

What’s included?

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CAMs Summary

A CAM is defined as 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.

The determination of CAMs is based on the facts and circumstances of each audit. AS 3101 is principles-based and does not specify any matters that would always constitute CAMs. The Board expects that, in most audits to which the CAM requirements apply, there will be at least one CAM. However, there also may be audits in which the auditor determines there are no CAMs.

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

CAMs are required to relate to accounts or disclosures that are material to the financial statements. Materiality is not solely based on quantitative factors; it also reflects qualitative factors.

This element of the CAM definition is grounded in the financial statement presentation and disclosures of the applicable financial reporting framework. Matters that meet the

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).

other elements of the CAM definition may or may not be CAMs, depending on whether they relate to accounts or disclosures that are material to the financial statements.

For example:

A potential loss contingency for which management recorded an accrual and/or made a disclosure could potentially be a CAM. However, a potential loss contingency for which the likelihood was appropriately determined to be remote, and which was not recorded in the financial statements or otherwise disclosed, would not be a CAM because it would not relate to an account or disclosure that is material to the financial statements.

A potential illegal act about which management provided disclosure could be determined to be a CAM. Even if the amounts involved were not quantitatively material, such a disclosure on its own may be qualitatively material. On the other hand, if management appropriately determined that no disclosure or accrual was required in the financial statements, the matter could not be a CAM.

A CAM may relate to a component of an account or disclosure that is material to the financial statements, rather than the entire account or disclosure.

For example:

If goodwill is material to the financial statements, a component of goodwill could potentially be the subject of a CAM. For example, if the auditor's evaluation of the company's goodwill impairment assessment for one of several reporting units involved especially challenging, subjective, or complex judgment, the auditor may determine that a CAM exists even if there is no impairment. The CAM would relate to goodwill recorded on the balance sheet and the disclosure in the notes to the financial statements about the company's impairment policy and goodwill.

A CAM may also relate to many accounts or disclosures and have a pervasive effect on the financial statements.

For example:

The auditor's evaluation of a company's ability to continue as a going concern could represent a CAM, depending on the circumstances of the individual audit.

Matters that would not themselves constitute CAMs because they do not relate to accounts or disclosures that are material to the financial statements could be among the considerations that lead the auditor to determine that another matter is a CAM.

Involved especially challenging, subjective, or complex auditor judgment

CAMs involve “especially challenging, subjective, or complex auditor judgment.” In determining whether those criteria apply, the auditor should take into account, alone or in combination, the following nonexclusive list of factors:

- The auditor's assessment of the risks of material misstatement, including significant risks;
- The degree of auditor judgment related to areas in the financial statements that involved the application of significant judgment or estimation by management, including estimates with significant measurement uncertainty;
- The nature and timing of significant unusual transactions and the extent of audit effort and judgment related to these transactions;

- The degree of auditor subjectivity in applying audit procedures to address the matter or in evaluating the results of those procedures;
- The nature and extent of audit effort required to address the matter, including the extent of specialized skill or knowledge needed or the nature of consultations outside the engagement team regarding the matter; and
- The nature of audit evidence obtained regarding the matter.

In addition to these listed factors, the auditor should also take into account other factors specific to the audit.

Staff FAQs

1. How should the auditor apply the requirement to determine matters that involve “especially challenging, subjective, or complex auditor judgment”?

CAMs stand out from the other numerous matters addressed during an audit due to the challenging, subjective, or complex auditor judgment they require. Some aspects of an audit are inherently more challenging, subjective, or complex than others and are therefore more likely to meet the criteria for CAMs when they arise. Other aspects of an audit may involve especially challenging, subjective, or complex judgment only in the context of a particular issuer, transaction, or circumstance.

“Especially challenging, subjective, or complex auditor judgment” is assessed in the context of the many judgments the auditor makes in the course of conducting the audit. The standard uses the word “especially,” instead of “most” as originally proposed, to convey more clearly that there could be multiple CAMs and that matters are assessed on a relative basis within the specific audit.

For example:

A matter that was a CAM in a previous period would not cease to be a CAM just because another matter arose in the current period requiring even more challenging, subjective, or complex auditor judgment. If both matters involved especially challenging, subjective, or complex auditor judgment in the current year, the auditor would identify both as CAMs.

In determining CAMs, the auditor should consider each of the criteria in the CAM definition: a CAM may involve especially challenging auditor judgment, especially subjective auditor judgment, especially complex auditor judgment, or some combination thereof.

When communicating CAMs, auditors may choose to identify specifically which of the three criteria apply to each CAM. However, labeling a matter as “challenging,” “subjective,” and/or “complex” does not substitute for the required description of the principal considerations driving the CAM determination. That description should be specific to the circumstances and provide a clear, concise, and understandable discussion of ***why*** the matter is a CAM—i.e., what especially challenging, subjective, or complex auditor judgments were involved in auditing the matter.

2. Should CAM determinations be consistent across auditors, or will CAMs vary depending on the auditor?

Some aspects of an audit are inherently more challenging, subjective, or complex than others, regardless of the auditor's experience, knowledge, and resources. Such matters may be determined to be CAMs even when the auditor has ample experience and access to specialists, the ability to consult with national office experts, and other resources.

By their nature, accounting estimates generally involve subjective assumptions and measurement uncertainty and may involve complex methods. Regardless of the characteristics of the auditor, these attributes of estimates may affect the:

- Degree of auditor judgment;
- Degree of auditor subjectivity in applying procedures and evaluating results;
- Nature and extent of the required audit effort;
- Nature of audit evidence obtained; and/or
- Other audit-specific factors relevant to determining whether the matter involved especially challenging, subjective, or complex auditor judgment.

The requirements for determining CAMs are, however, principles-based and should be applied in the context of the facts and circumstances of the specific audit. Accordingly, differences in auditors' judgment, as well as in the nature, timing, and extent of the audit response required in the specific circumstances, will influence the determination of CAMs.

3. Are CAMs expected to vary from year to year or should they be consistent?

The determination and communication of CAMs is done every year in connection with the current period audit. Depending on the circumstances, some matters may be CAMs each year, while others may be CAMs in a single period or intermittently.

Some matters may arise every year, and may always require especially challenging, subjective, or complex auditor judgment. Such matters may be determined to be CAMs every year. On the other hand, matters that require especially challenging, subjective, or complex auditor judgment in a given year may be CAMs in only that year. For example, implementation of a new accounting standard or accounting for a significant unusual transaction may require especially challenging, subjective, or complex auditor judgment in the year in which they occur but not thereafter.

CAMs may also recur intermittently. For example, the audit of deferred tax assets accounts and disclosures may involve especially challenging, subjective, or complex auditor judgment in years when additional auditor judgment and effort is necessary to assess the company's ability to utilize net operating loss carryforwards.

4. 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?

Significant events (e.g., natural disasters, cybersecurity breaches) or matters relating to the business and regulatory environment (e.g., significant regulatory changes, new accounting standards, significant changes in the economic or business environment, or in government operations or policy) could affect the financial statements—including, for example, key estimates, valuations, or the accounting for transactions and the related disclosures—and become the subject of communications between the auditor and the audit committee. When evaluating such events or matters for purposes of determining CAMs, auditors would consider the impact on the audit, which will largely depend on the nature, timing, and extent of the audit response required to address any affected accounts and/or disclosures.

For example:

A cybersecurity breach that targeted an issuer’s general ledger system may involve especially challenging, subjective, or complex auditor judgment to address, either in auditing specific affected accounts and/or disclosures (for example, a loss contingency recorded in relation to the breach) or more pervasively (if the breach affected multiple accounts or pervasively affected the financial statements). The impact of the breach on the financial statements and therefore on the audit would dictate the nature of any associated CAM(s).

5. How should a material weakness or significant deficiency in internal control over financial reporting be considered when determining CAMs?

The evaluation and determination process for control deficiencies (whether in accordance with [AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements](#), or [AS 1305, Communications About Control Deficiencies in an Audit of Financial Statements](#)) does not relate to a financial statement account or disclosure. Accordingly, the evaluation of the severity of control deficiencies, which includes determining whether a material weakness or significant deficiency exists, would not, in and of itself, be a CAM.

When a control deficiency exists, the auditor needs to consider whether and how the auditor might need to adjust the original audit plan (i.e., audit response). The audit response to deficiencies that constitute a material weakness could be extensive, since the auditor has concluded a reasonable possibility of material misstatement exists. For significant deficiencies and other less severe control deficiencies, the required audit response may be less extensive. A control deficiency may be in respect of controls over one account and/or disclosure or multiple accounts and/or disclosures, or the ineffective controls may have a pervasive effect on the financial statements. If auditing the affected account balances and disclosures involved especially challenging, subjective, or complex auditor judgment, the auditor would determine one or more CAMs. The deficiency could be among the considerations that led the auditor to determine such CAMs.

If a significant deficiency was among the principal considerations in determining that a matter was a CAM, the auditor would describe the relevant control-related issues over the matter in the broader context of the CAM without using the term “significant deficiency.” For material weaknesses, unlike significant deficiencies, there is reporting by the company, so there would be no sensitivity around using that term in a CAM description if referring to the existence of a material weakness was responsive to the requirements for CAM communication.

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

Under SEC interpretation, companies should provide a discussion in 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.
- The effect of the estimates and assumptions is material to the financial statements.

(See [Interpretation: Commission Guidance Regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations](#), Exchange Act Rel. No 48960 (Dec. 29, 2003).)

The critical accounting estimates for which management is required to provide disclosure may overlap with CAMs but they are not the same thing. While some critical accounting estimates (or components of those estimates) may be the subject of CAMs, not all critical accounting estimates necessarily would be.

The source of CAMs is broader than just critical accounting estimates (i.e., all matters communicated or required to be communicated to the audit committee), and the auditor may identify matters as CAMs that have not been identified as critical accounting estimates.

7. How should “significant risks” be considered in determining whether a matter involved especially challenging, subjective, or complex auditor judgment?

It is not expected that all significant risks will give rise to CAMs, or that all CAMs will necessarily be related to an identified significant risk. The factors relevant to identifying significant risks (see [paragraph .71 of AS 2110, Identifying and Assessing Risks of Material Misstatement](#)) overlap with, but are not identical to, the criteria that apply in determining CAMs.

In determining whether a matter involved especially challenging, subjective, or complex auditor judgment, the auditor is required to take into account the factors set forth in AS 3101.12, including the auditor’s assessment of the risks of material misstatement. For example, if responding to a significant risk (e.g., presumed fraud risk for improper revenue recognition) did not involve especially challenging, subjective, or complex auditor judgment, the auditor would not determine that a related CAM exists. Conversely, responding to risks of material misstatement that do not rise to the level of a significant risk may involve especially challenging, subjective, or complex auditor judgment, particularly when the risks relate to areas in the financial statements

which involve greater degrees of judgment and estimation. In such circumstances, the auditor may determine that one or more CAMs exist.

8. How should decisions about audit strategy be considered in determining CAMs?

Decisions about audit strategy and changes in audit strategy over the course of the audit, even if they would not meet the definition of CAMs, may be indicative of the reasons why a matter was a CAM and included in the description of how a CAM was addressed in the audit. For example, audit strategy may affect the:

- Degree of auditor judgment related to areas in the financial statements that involved the application of significant judgment or estimation by management;
- Nature and extent of audit effort (which includes, for example, efforts to supervise other auditors and the auditor's use of a specialist);
- Nature of available audit evidence; and
- Other factors specific to the audit.

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

In communicating CAMs, auditors are required to refer to the relevant financial statement accounts or financial statement disclosures rather than to disclosures outside the financial statements.

Company disclosures outside of financial statements may, however, be relevant in the context of CAM communication. When describing CAMs in the auditor's report, 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. 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.

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