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# Critical Audit Matters Make Their Debut!

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## Introduction

The first auditors' reports with critical audit matters (CAMs) were filed! In auditors' reports for all large accelerated filers with fiscal years ending June 30, 2019, the CAMs most often identified were related to goodwill and intangible assets, revenue, and income taxes, and on average, 1.8 CAMs were communicated.

In 2017, the PCAOB and SEC approved [PCAOB Auditing Standard 3101](#) (the "standard"),<sup>1</sup> which substantially revised the auditor's reporting model. The most significant change was the requirement for auditors to include CAMs<sup>2</sup> in the auditor's report. The standard is effective for audits of large accelerated filers for fiscal years ending on or after June 30, 2019, and will become effective for audits of all other companies that are subject to the requirements<sup>3</sup> for fiscal years ending on or after December 15, 2020.

The more commonly identified CAMs are related to accounts or disclosures in which there is a high degree of auditor subjectivity associated with applying audit procedures and evaluating the results of those procedures. However, a CAM could also be identified for an account or disclosure that is especially challenging or complex to audit.

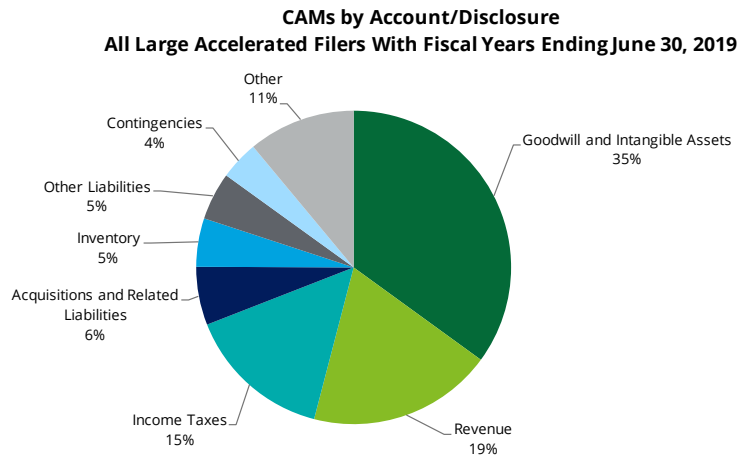
<sup>1</sup> PCAOB Auditing Standard No. 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. For more information about the standard, see Deloitte's June 20, 2017, [Heads Up](#).

<sup>2</sup> As defined in the standard, 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 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."

<sup>3</sup> The standard specifies that communication of CAMs "is not required for audits of (1) brokers and dealers reporting under [Rule 17a-5 of the Securities Exchange Act of 1934 (the "Exchange Act")]; (2) investment companies registered under the Investment Company Act of 1940 . . . other than . . . business development companies; (3) employee stock purchase, savings, and similar plans; and (4) emerging growth companies [as defined in Section 3(a)(80) of the Exchange Act]" (footnotes omitted).

## CAM Results for Large Accelerated Filers With Fiscal Years Ending June 30, 2019

August 29, 2019, was the filing deadline for large accelerated filers with fiscal years ending on June 30, 2019. The chart below summarizes CAMs by account/disclosure from auditors' reports of all large accelerated filers with fiscal years ending June 30, 2019, filed as of August 29, 2019.



Information is based on CAMs included in the auditors' reports of 52 large accelerated filers with fiscal years ending June 30, 2019, filed as of August 29, 2019.

The PCAOB states in the standard that “[i]t is expected that, in most audits, the auditor would determine that at least one matter involved especially challenging, subjective, or complex auditor judgment.”

### CAM Dry Runs

Over the past year, public accounting firms (including Deloitte) made significant progress toward implementing the standard, including developing tools and guidance as well as performing “dry runs” of the CAM requirements for audits of large accelerated filers. In the dry runs, auditors evaluated matters that might be CAMs, considered how CAMs should be drafted, and discussed potential CAMs with management and audit committees to help them understand and prepare for the CAM requirements before the standard’s effective date. The dry runs also provided opportunities for the identification and assessment of implementation challenges, and sharing the draft CAMs allowed auditors, management, and audit committees to align their expectations, thereby avoiding surprises when the standard became effective.

Lessons learned during the dry runs included the following:

- Practicing the identification and communication of CAMs allowed auditors to gain valuable experience, resulting in a smoother implementation process.
- Deciding whether an account or disclosure was a CAM required significant judgment and was specific to the circumstances of each audit. Therefore, what might be a CAM on one audit might not be a CAM on another audit.
- Communicating CAMs that are easily understood by a broad readership can be challenging. For example, it can be difficult to convey concisely why a matter is a CAM or to summarize the audit procedures performed in a manner that is informative but not overly technical.
- Sharing draft CAMs with management, audit committees, and legal counsel provided an opportunity to set expectations about CAMs and to reach a common understanding about applying the standard’s requirements and how the implementation process and timing may work.

In general, the dry runs helped auditors, management, and audit committees be better prepared to implement the requirements when they became effective. Deloitte will continue to perform dry runs in connection with the 2019 audits of all other companies that are subject to the CAM requirements.

## Looking Ahead

The PCAOB has indicated that once the initial implementation of CAMs begins, the Board will assess stakeholders' experiences and results and determine whether to take further action. Issuance of auditors' reports containing CAMs will continue to increase in the coming months. It is imperative that auditors, management, and audit committees maintain a dialogue on CAMs to prepare for this significant new requirement.

## Appendix — Resources

### PCAOB Staff Guidance

This year, the PCAOB issued the following staff guidance documents to support implementation of the new CAM requirements:

- [Implementation of Critical Audit Matters: The Basics](#) (March 2019) — “provides a high-level overview of the CAM requirements based on [PCAOB Release No. 2017-001](#).”
- [Implementation of Critical Audit Matters: Staff Observations From Review of Audit Methodologies](#) (March 2019) — “outlines the scope and purpose of the [PCAOB] staff’s review [of] CAM methodologies, practice aids, training materials, and examples . . . submitted by 10 U.S. audit firms that collectively audit approximately 85% of large accelerated filers . . . and highlights thematic observations identified during the review.”
- [Implementation of Critical Audit Matters: A Deeper Dive on the Determination of CAMs](#) (March 2019) — “focuses primarily on questions that may arise when determining CAMs.”
- [Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs](#) (May 2019) — “focuses on questions that may arise when the auditor is communicating CAMs.”

These documents were developed as a result of discussions with auditors regarding their experiences conducting dry runs, the PCAOB staff’s review of methodologies, and other outreach efforts.

In addition, to advance its strategic priority related to cultivating effective communication with stakeholders, the PCAOB issued the following resources for audit committees and investors:

- [Audit Committee Resource: Critical Audit Matters](#) (July 2019) — “aims to inform audit committees as they engage with their auditors on the new CAM requirements.”
- [Investor Resource: Critical Audit Matters](#) (July 2019) — provides “investors with useful information regarding changes to the auditor’s report, frequently asked questions about CAMs, and information about the implementation of the standard.”

### Deloitte Resources

Deloitte has developed a quick-reference guide, [Insights: PCAOB Auditor’s Report — Critical Audit Matters](#), which provides information about CAM effective dates, expected benefits of CAMs for companies, considerations for audit committees and management, steps the auditor takes to identify CAMs, and other matters. In addition, Deloitte’s [On the Board’s Agenda: What to Expect From Auditor Reporting of Critical Audit Matters](#) contains information about identifying and preparing CAMs as well as what boards might expect when reporting them.

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