
PCAOB Takes a "Deeper Dive on the Communications of CAMs"

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Last week, the Public Company Accounting Oversight Board issued additional staff guidance on implementation of the upcoming Critical Audit Matters (CAMs) disclosure requirement, offering a ["Deeper Dive on the Communication of CAMs."](#) While primarily intended for auditors, the latest guidance will be a useful reference for audit committees to consider as they review proposed CAMs disclosures. The guidance outlines the basic CAMs disclosure requirements, comments on the PCAOB's expectations regarding these disclosures and includes a series of more technical FAQs.

With respect to each CAM identified in the course of an audit, auditors will be required to communicate the following:

- 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.

In describing how a CAM was addressed in the audit, the rule sets forth four elements that auditors can use individually or in combination:

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

As the guidance emphasizes, the PCAOB's intention for this description is for auditors "to provide a summary that is useful to investors, and not to detail every aspect of the auditor's response or approach." Importantly, CAMs disclosure "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 guidance also reminds auditors to avoid 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."

Distilling some common themes from the FAQ responses and the CAMs rule more broadly, the guidance offers the following CAMs communication tips for auditors:

- 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; and
- 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.

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