



# What you need to know about the new Auditor Reporting Model



# Critical audit matters

Critical Audit Matters (CAMs) are those matters arising from the financial statement audit that were communicated or required to be communicated to the audit committee and that:

1. relate to accounts or disclosures that are material to the financial statements, and
2. involve especially challenging, subjective or complex auditor judgment.

The requirement to communicate CAMs is intended to provide more information about the audit and make the auditors' report more informative and relevant to investors and other financial statement users.

This communication is based on information known to the auditor and procedures already performed as part of the audit. However, the new standard imposes incremental audit performance requirements about determining the CAMs, communicating with the audit committee, documenting key elements in the auditors work papers and drafting Critical Audit Matters within the auditors' report. In the unusual situation in which the auditor determines that there were no Critical Audit Matters, the auditor must state that fact. The Critical Audit Matters section of the auditors' report will follow the Basis for Opinion section.

## When will CAMs go into effect?

- The requirement to communicate Critical Audit Matters in the auditors' report is effective for audits of large accelerated filers for years ending on or after **June 30, 2019**.
- For all other filers for which the CAM requirements are applicable, it is effective for fiscal years ending on or after **December 15, 2020**.

## What matters might be identified as especially challenging, subjective or complex auditor judgment?

The standard describes the following factors that the auditor should take into account, alone or in combination, as well as other factors specific to the audit, when determining whether a matter involved is especially challenging, subjective or a complex auditor judgment:

- 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.

## What are Items that will be communicated for each CAM?

For each CAM communicated, the auditor will:

- identify the Critical Audit Matter;
- describe the principal considerations that led the auditor to determine that the matter is a CAM;
- describe how the auditor addressed the CAM in the audit; and
- refer to the relevant financial statement accounts or disclosures that relate to the CAM.

## Applicability

The PCAOB Audit Standard 3101 and related amendments (collectively referred to as the new standard) applies to audits conducted under PCAOB standards with certain exceptions.

The requirements related to critical audit matters (CAMs) do not apply to audits of:

1. brokers and dealers reporting under Exchange Act Rule 17a-5;
2. investment companies as defined by the Investment Company Act, except for business development companies;
3. employee stock purchase, savings and similar plans; or
4. emerging growth companies.



## KPMG observation

The requirement for the auditor's report to communicate Critical Audit Matters will be of significant interest to senior management and members of the audit committee.

Generally, these communications can occur well in advance of the completion of the audit.

"The new Critical Audit Matters (CAMs) is a great opportunity for the audit profession and the biggest change we've had in the last 70 years - so we view it as an opportunity for better communication with investors"

*Jackie Daylor, KPMG, National Managing Partner - Audit Quality & Professional Practice*

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