

THE SECOND ANNUAL INVESTOR ADVISORY GROUP MOST DECISION-USEFUL CRITICAL OR KEY AUDIT MATTERS FOR 2024



Members of the Investor Advisory Group

DECEMBER 2025

Disclaimer and Acknowledgement

This report represents the views of the Investor Advisory Group (IAG), not necessarily the views of all its individual members, or the organizations that employ each of them. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB) and its staff. Nothing in this report should be construed as an endorsement or recommendation of any public companies, any audit firms, or any firms' personnel. The IAG is not offering any opinion on the adequacy of the financial statements or disclosures of any issuer or the auditor's report. The PCAOB and IAG make no representations as to the accuracy or completeness of this information. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see <https://pcaobus.org/about/advisory-groups/investor-advisory-group>.

The IAG would like to acknowledge the Council of Institutional Investors (CII) Legal Analyst Intern Jerry Li and Editor Rosemary Lally for contributing to this report. The IAG also wishes to acknowledge CII Research Assistant Victor Ilie for his contributions to this year's nomination process.

EXECUTIVE SUMMARY

This report contains four sections. The first section provides a brief introduction to the history of Critical Audit Matters (CAMs). The second section discusses the 2023-2024 and 2024-2025 IAG activities related to the CAMs, especially the annual most decision-useful CAMs evaluation process. The third section discusses findings of the IAG from the 2024-2025 evaluation process. The fourth and final section concludes and provides suggestions for improving CAMs.

SECTION I. INTRODUCTION TO CAMS

The introduction of CAMs in the United States (U.S.) reflects a long history of ongoing concerns regarding the insufficiency of the auditor's role in financial statements. In 2008, the U.S. Department of Treasury Advisory Committee on Auditing Profession (ACAP) recommended that the PCAOB consider improvements to the auditor's report.¹ In particular, the ACAP noted that:

“...[I]ncreasing complexity of global business operations are compelling a growing use of judgments and estimates, including those related to fair value measurements, and also contributing to greater complexity in financial reporting.”²

ACAP believed that improving the content of the auditor's report beyond the traditional pass/fail model would help the auditors communicate with investors and make the auditor's report more useful.³

In response, in part, to the ACAP recommendation, the PCAOB launched a standard-setting project in 2010, and proposed an auditing standard that included new requirements for auditors to communicate CAMs in August 2013.⁴ The PCAOB's objectives to improve communication and to make the auditor's report more informative were generally welcomed by the public, though the views on CAMs varied.⁵ Investors and analysts were among the groups most supportive of CAMs.⁶

While considering the comments on the proposed standard, the PCAOB examined the international auditing standards available at the time, including the standard on Key Audit Matters (KAMs), the

¹ See U.S. Dep't of the Treasury, Advisory Comm. Advisory Committee on the Auditing Profession Final Report VII:13 (Oct. 6, 2008), <https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=1701&context=ypfs-documents> (“Recommendation 5: Urge the PCAOB to undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model.”).

² *Id.* at VII:17.

³ See *id.* at II:5.

⁴ See PCAOB Release No. 2013-005 at 15 (Aug. 13, 2013), https://pcaobus.org/Rulemaking/Docket034/Release_2013-005_ARM.pdf.

⁵ See PCAOB Release No. 2017-001 at 6 (June 1, 2017), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket034/2017-001-auditors-report-final-rule.pdf?sfvrsn=14ad22c9_0 (“Most commenters generally supported the Board's objective to improve the auditor's report to make it more informative and relevant to financial statement users, but commenters' views varied on the nature and extent of such changes, particularly as to critical audit matters.”).

⁶ See *id.*

international counterpart to CAMs.⁷ Formally introduced in January 2015 by the International Auditing and Assurance Standards Board International Standard on Auditing 701 (ISA 701),⁸ KAMs aimed to improve communication between the auditors and the investors.⁹ KAMs are defined by ISA 701 as:

“Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.”¹⁰

ISA 701 has been adopted by many countries around the world, including the United Kingdom (UK).¹¹ Under the instructions of the Financial Reporting Council, the UK began to reform its auditor’s report in 2013.¹² The UK came to full convergence with ISA 701 in 2016.¹³

Currently, listed companies, public interest entities, and government entities in the UK follow ISA (UK) 701, which is a variation of the ISA 701 with more detailed instructions for the auditors.¹⁴ Pursuant to a May 2022 update, ISA (UK) 701 mandates that auditors of public interest entities include the following information in their reports:

(A) A DESCRIPTION OF THE MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT, (WHETHER OR NOT DUE TO FRAUD);

(B) A SUMMARY OF THE AUDITOR’S RESPONSE TO THOSE RISKS; AND

(C) WHERE RELEVANT, KEY OBSERVATIONS ARISING WITH RESPECT TO THOSE RISKS.¹⁵

In the U.S., the PCAOB adopted Auditing Standard 3101 (AS 3101) on June 1, 2017, after more than six years of outreach and public comment, including comments from the previous iteration of the IAG and the Board’s Standing Advisory Group.¹⁶ The goal of AS 3101 was to “to provide new

⁷ See *id.* at 7-10.

⁸ See Communicating Key Audit Matters in the Independent Auditor’s Report, ISA 701 (IAASB Jan. 14, 2014), <https://www.iaasb.org/publications/international-standard-auditing-isa-701-new-communicating-key-audit-matters-independent-auditor-s-3>.

⁹ See The New Auditor’s Report: Greater Transparency into the Financial Statement Audit 2 (IAASB Jan. 2015), <https://www.iaasb.org/flysystem/azure-private/publications/files/Auditor-Reporting-Fact-Sheet.pdf>.

¹⁰ Communicating Key Audit Matters in the Independent Auditor’s Report, ISA 701 at ¶ 8.

¹¹ See Elizabeth Gutierrez, et al., *Consequences of adopting an expanded auditor’s report in the United Kingdom*, Rev. Acct. Stud. 1 (Apr. 23, 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2741174.

¹² See *id.*

¹³ See Miguel Minutti-Meza, *The art of conversation: the expanded audit report*, Acct. & Bus. Rsch., 5 Vol. 51, 548-81 (Aug. 9, 2021), <https://doi.org/10.1080/00014788.2021.1932264>.

¹⁴ See Intl’ Standard on Auditing (UK) 701 (Revised Nov. 2019): Communicating Key Audit Matters in the Independent Auditor’s Report (May 2022), https://media.frc.org.uk/documents/ISA_UK_701_Updated_May_2022_qLGK0mh.pdf.

¹⁵ See *id.* at ¶ 13-1.

¹⁶ See PCAOB Release No. 2017-001 at 4-7.

information about the audit and make the auditor’s report more informative and relevant to investors and other financial statement users.”¹⁷ AS 3101 defined CAMs in Paragraph .11 as:

“[A]ny 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.”¹⁸

Paragraph .14 further specified that, for each CAM communicated in the auditor’s report, the auditor must:

- (A) IDENTIFY THE CRITICAL AUDIT MATTER;**
- (B) DESCRIBE THE PRINCIPAL CONSIDERATIONS THAT LED THE AUDITOR TO DETERMINE THAT THE MATTER IS A CRITICAL AUDIT MATTER;**
- (C) DESCRIBE HOW THE CRITICAL AUDIT MATTER WAS ADDRESSED IN THE AUDIT; AND**

NOTE: IN DESCRIBING HOW THE CRITICAL AUDIT MATTER WAS ADDRESSED IN THE AUDIT, THE AUDITOR MAY DESCRIBE: (1) THE AUDITOR’S RESPONSE OR APPROACH THAT WAS MOST RELEVANT TO THE MATTER; (2) A BRIEF OVERVIEW OF THE AUDIT PROCEDURES PERFORMED; (3) AN INDICATION OF THE OUTCOME OF THE AUDIT PROCEDURES; AND (4) KEY OBSERVATIONS WITH RESPECT TO THE MATTER, OR SOME COMBINATION OF THESE ELEMENTS.
- (D) REFER TO THE RELEVANT FINANCIAL STATEMENT ACCOUNTS OR DISCLOSURES THAT RELATE TO THE CRITICAL AUDIT MATTER.**¹⁹

AS 3101 went into effect for audits of larger U.S. public companies in 2019 and was required for audits of most other U.S public companies starting 2020.²⁰

¹⁷ *Id.* at 1.

¹⁸ *Id.* at A1-7.

¹⁹ *Id.* at A1-8-9.

²⁰ *Id.* at 4 (“Provisions related to critical audit matters will take effect for audits of fiscal years ending on or after June 30, 2019, for large accelerated filers; and for fiscal years ending on or after December 15, 2020, for all other companies to which the requirements apply”).

SECTION II. RELEVANT IAG ACTIVITIES FROM 2023-2025

ESTABLISHMENT OF IAG EVALUATION PROCEDURES

In the years following the adoption of AS 3101, there were ongoing efforts to monitor its implementation and suggest necessary amendments to the standard by the Members of the Investor Advisory Group (MIAG). During the IAG’s June 2023 meeting, Member Sandra Peters led a panel discussion on an agenda item titled, “Briefing to the PCAOB – Critical Audit Matters.”²¹ The panel of experts included former PCAOB Chief Auditor Martin Baumann; former PCAOB chief of staff and founder of AssuranceMark, The Investors’ Consortium for Assurance Samantha Ross; Dr. Colleen Honigsberg of Stanford Law School, and Jared Goodman, senior equity portfolio manager at the Colorado Public Employees’ Retirement Association.²²

Following the meeting, Peters prepared a draft memorandum that included a recap of the agenda items and individual recommendations. After receiving the approval from a majority of the MIAG,²³ the memorandum, “PCAOB MIAG Recommendation – Improving Audit Disclosures” (“Recommendation”), was presented at the IAG’s October 2023 meeting.²⁴ The Recommendation includes proposals in the following areas:

- (1) Revise the staff guidance
- (2) Inspection process review
- (3) Remove the term “especially” from AS 3101’s definition of CAM
- (4) Describe the auditor’s observations, not simply their audit procedures
- (5) Outreach to investors
- (6) Research on matters of importance to investors
- (7) IAG annual evaluation of CAMs.²⁵

The last proposal is unique in that it is the only recommendation that could be implemented by the MIAG.²⁶ More specifically, the proposal asked the MIAG to publicly solicit nominees for best

²¹ Subcomm. on Standards, PCAOB Investor Advisory Group, *Briefing to the PCAOB – CAMs Audit Matters*, (June 7, 2023) (on file with MIAG); see PCAOB IAG Meeting (June 7, 2023, Part 1 of 2) (on file with MIAG).

²² *Id.*

²³ See Members of the Investor Advisory Group (MIAG), *PCAOB Investor Advisory Group Recommendation: Improving Critical Audit Matters Disclosures 2-6* (Oct. 2023), https://assets.pcaobus.org/pcaob-dev/docs/default-source/standards/documents/iag-cam-recommendation_final.pdf?sfvrsn=b772af6a_1.

²⁴ PCAOB IAG Meeting (Oct. 10, 2023, Part 2 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-october-2023> (comments of Sandra Peters during discussion of agenda item: “IAG Recommendations to the Board on Critical Audit Matters”).

²⁵ See MIAG, *PCAOB Investor Advisory Group Recommendation: Improving Critical Audit Matters Disclosures*, *supra* note 23 at 9-11.

²⁶ See Soyoung Ho, *PCAOB’s Investor Panel to Present Best Critical Audit Matters*, Thomson Reuters (Sep. 24, 2024), <https://tax.thomsonreuters.com/news/pcaobs-investor-panel-to-present-best-critical-audit-matters/>; Soyoung Ho, *PCAOB Investor Advisory Group Seeks Public Nominations for Best Critical Audit Matters*, Thomson Reuters, (Apr. 26, 2024), <https://tax.thomsonreuters.com/news/pcaob-investor-advisory-group-seeks-public-nominations-for-best-critical-audit-matters/>.

CAMs every year and identify three CAMs that the MIAG believe are particularly insightful or useful to investors.²⁷ The MIAG would then submit an annual public report that includes an explanation as to why the three CAMs were particularly insightful with the objective of providing guidance for the firms to improve their CAMs.²⁸

2023-24 IAG CAM EVALUATION

The MIAG launched its first annual evaluation of CAMs in connection with the IAG's April 2024 meeting.²⁹ At the meeting, IAG member Jeff Mahoney announced that the MIAG would seek nominations from the public, including from public companies, auditors, financial analysts, and investors, for the most decision-useful CAMs or KAMs contained in public companies auditors' reports included in the 2023 Form 10-K and Form 20-F filings.³⁰ Consistent with the comments from Bauman referenced in the Recommendation,³¹ and noting the high degree of similarities between CAMs and KAMs,³² the MIAG purposefully accepted nominations from both categories, as studying KAMs of Securities and Exchange Commission (SEC) registrants might provide insights into creating more useful CAMs.³³

By the June 30, 2024, deadline, the MIAG received 26 nominations from seven individuals or organizations.³⁴ These nominations represent 15 CAMs and 11 KAMs from the auditor's reports

²⁷ See *id.*

²⁸ See MIAG, *PCAOB Investor Advisory Group Recommendation: Improving Critical Audit Matters Disclosures*, *supra* note 23 at 11.

²⁹ See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (on file with MIAG) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Request for Critical Audit Matters**”); Soyoung Ho, *PCAOB Investor Advisory Group Seeks Public Nominations for Best Critical Audit Matters*, Thomson Reuters (“IAG member Jeffrey Mahoney, general counsel of the Council of Institutional Investors, is spearheading the effort, and he announced the request to the public during a virtual meeting of the advisory panel on April 24, 2024.”).

³⁰ See MIAG, *PCAOB IAG Seeks Nominations from Public for Most Decision Useful Critical or Key Audit Matter for 2023* (Apr. 24, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/information/investor/iag-request-for-cams.pdf?sfvrsn=37fb223d_2.

³¹ See MIAG, *PCAOB Investor Advisory Group Recommendation: Improving Critical Audit Matters Disclosures*, *supra* note 23 at 4 (“Baumann also suggested that the PCAOB should study the experiences of the IAASB's K-KAMs disclosures. If they are proving more useful for investors than PCAOB C-CAMs, adopting the IAASB definitional language might also be considered.”).

³² See MIAG, *The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023* at 3 (Dec. 2024), <https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/seiag-november-2024/iag-report---the-first-annual-iag-critical-or-key-audit-matter-report.pdf> (“AS 3101 was intended to be generally consistent with ISA 701”); PCAOB Release No. 2017-001 at 4 (“The IAASB's standard is most similar to the Board's final standard ... Many commenters on the reproposal were supportive of the Board's closer alignment with the IAASB.”).

³³ See Jessica A. Nylen, Daniel D. Wangerin & Karla M. Zehms, *Differences in Key Audit Matter and Critical Audit Matter Disclosures for the Same Client* 21-24 (Aug. 19, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4569474 (discussing that studying KAMs can provide useful insights for regulators in the United States).

³⁴ See Soyoung Ho, *PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023*, Thomson Reuters (Oct. 9, 2024), <https://tax.thomsonreuters.com/news/pcaob-investor-panel-picks-deloitte-ey-for-having-3-most-useful-critical-audit-matters-in-2023/>; *The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023*, *supra* note 32 at 9.

of three international auditing firms: Deloitte, EY and PricewaterhouseCoopers (PwC) (see 2023 figures in Appendix 1).³⁵ The final three most decision-useful CAMs/KAMs as determined by the MIAG were all nominated by former IAG member Jack Ciesielski of R.G. Associates, Inc., and were as follows:³⁶

Goodwill and Indefinite-Lived Intangible Assets CAM by Deloitte at **Berkshire Hathaway Inc.**³⁷

Unpaid Losses and Loss Adjustment – Retroactive Reinsurance Contracts Expenses CAM by Deloitte at **Berkshire Hathaway Inc.**³⁸

Raw Material Inventory Write-Downs CAM by EY at **Moderna, Inc.**³⁹

The MIAG found that the three finalists add knowledge to investors regarding recent transactions affecting the company, covering areas of interest lesser known to public investors.⁴⁰ Specifically, with respect to Berkshire, the Goodwill CAM explained how the auditing team estimated the forecasted future revenue, earnings before interest and taxes after acquisition of goodwill and intangible assets from Precision Castparts Corp., while the Unpaid Losses and Losses Adjustment CAM explained a major area of uncertainty on the balance sheet and how the auditors were able to reach a conclusion.⁴¹

The MIAG published a final report on the First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters in December 2024.⁴² The report summarized the nomination and evaluation processes, discussed the three finalists, and contained suggestions for improving the CAM reporting system. The MIAG concluded that CAMs could be improved in at least two ways:

(1) THE CAMS SHOULD INTEGRATE KEY OBSERVATIONS THAT GO BEYOND PROCEDURAL DETAILS (WHAT THE AUDITOR DID) TO PROVIDE INSIGHTS OR OUTCOMES RELATED TO THE PROCEDURES PERFORMED (WHAT THE AUDITOR FOUND), AND;

³⁵ See *id.* at 9-10.

³⁶ See *id.* at 10.

³⁷ Berkshire Hathaway Inc., Form 10-K at K-69 (2023), <https://www.berkshirehathaway.com/2023ar/202310-k.pdf>.

³⁸ *Id.* at K-68.

³⁹ Moderna, Inc., Form 10-K at 103 (2023), <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001682852/12d8720a9f51-4695-b0e9-f2d45dff1c69.pdf>.

⁴⁰ See *The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023*, *supra* note 32 at 12 (“[W]hen [I] . . . look at CAMs, it’s to add to [my] knowledge of the company in question.”).

⁴¹ See *id.*

⁴² See Soyoung Ho, *PCAOB Investor Panel Calls for Better Critical Audit Matters; Will Seek Nominations for Best Disclosures*, Thomson Reuters (Jan. 23, 2025), <https://tax.thomsonreuters.com/news/pcaob-investor-panel-calls-for-better-critical-audit-matters-will-seek-nominations-for-best-disclosures/#:~:text=While%20Deloitte%20and%20EY%20did,R&D%20expense%20still%20rose%2047%25>.

(2) THE NUMBER OF CAMS DISCLOSED SHOULD BE INCREASED.⁴³

2024-25 IAG CAM NOMINATIONS

Following the success of the 2023-24 IAG CAMs evaluation, the MIAG announced that it would seek nominations for the most decision-useful CAMs or KAMs for 2024 in January 2025.⁴⁴ At the April 29, 2025, IAG meeting, Mahoney announced that he would be seeking nominations from the public for CAMs or KAMs contained in audit reports of 2024 Form 10-K or Form 20-F filers.⁴⁵ Nominators were requested to provide a 500-word explanation with their CAM/KAM. Like the prior year, MIAG also accepted anonymous nominations to facilitate the process and encourage participation.⁴⁶

By the end of the nomination period on June 30, 2025,⁴⁷ the MIAG received 20 nominations from 11 registrants, nominated by seven individuals or groups of individuals (see Appendix 2 for the full list of nominations).⁴⁸ As 2024 Figure 1 of Appendix 1 illustrates, 9 out of the 20 nominees were KAMs, while the remainder were CAMs.

In addition, 2024 Figure 2 of Appendix 1 shows that the twenty nominations are derived from the audit opinions of four audit firms: Deloitte, EY, PwC, and KPMG. Finally, 2024 Figure 3 of Appendix 1 indicates that the registrant with the most nominations (5) was Rolls-Royce Holdings plc, followed by Compass Group plc and Boeing.

Consistent with the prior year's practice, the MIAG was asked to review the twenty nominations together with the nominators' explanations as to why they believed the CAMs or KAMs nominated provided decision-useful information to investors. The MIAG was also provided with other information relating to the nominations for their review and analysis, including electronic links to the registrant's financial statements.⁴⁹

⁴³ *The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023*, *supra* note 32 at 14-15.

⁴⁴ See Ho, *PCAOB Investor Panel Calls for Better Critical Audit Matters*, *supra* note 42.

⁴⁵ See PCAOB IAG Meeting (Apr. 29, 2025, Part 2 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-2025> (comments of Jeff Mahoney during discussion of agenda item: **"IAG Request for Notable Critical Audit Matters (CAMs)"**); see also Soyoung Ho, *PCAOB's Investor Panel Seeks Nominations for Best Critical Audit Matters*, Thomson Reuters (May 7, 2025), <https://tax.thomsonreuters.com/news/pcaobs-investor-panel-seeks-nominations-for-best-critical-audit-matters/>.

⁴⁶ See MIAG, *PCAOB IAG Seeks Nominations from Public for Most Decision Useful Critical or Key Audit Matter of 2024* (Apr. 29, 2025), https://assets.pcaobus.org/pcaob-dev/docs/default-source/information/investor/iag-request-for-camsab466d45-dea1-444c-83a0-3d9c9e5a754b.pdf?sfvrsn=19c6b3bd_1.

⁴⁷ See Ho, *PCAOB'S Investor Panel Seeks Nominations for Best Critical Audit Matters*.

⁴⁸ See Soyoung Ho, *PCAOB Investor Panel Selects Best Critical, Key Audit Matters of 2024*, Thomson Reuters (Sep. 29, 2025), <https://tax.thomsonreuters.com/news/pcaob-investor-panel-selects-best-critical-key-audit-matters-of-2024/>.

⁴⁹ See generally 2024 Critical and Key Audit Matter Nominations & Related Materials (Aug. 18, 2025) (on file with MIAG).

2024-25 IAG MOST DECISION-USEFUL CAMS/KAMS

The three most decision-useful CAM/KAMs were selected based on a series of the MIAG votes during a virtual meeting on August 20, 2025.⁵⁰ The three CAMs/KAMs with the most votes, listed in no particular order, included:

Cost Estimates for Fixed-Price Development Contracts from **Boeing**, audited by Deloitte, nominated by Anonymous;⁵¹

Long-term contract accounting and associated provisions from **Rolls-Royce** Holdings plc, audited by PwC, nominated by Elizabeth Mooney, CPA, CFA, QRD, Investor, Board trustee, and former partner of Capital Strategy Research of the Capital Group Companies;⁵²

Uncertain direct tax provisions from **Compass Group** plc, audited by KPMG, nominated by Jared Goodman.⁵³

At the meeting of the IAG on September 25, 2025, the MIAG presented and discussed the above three most decision-useful CAM/KAMs for 2024.⁵⁴ Moderated by Mahoney, this meeting reported the explanations given by Anonymous and Mooney for the Boeing and Rolls-Royce CAMs/KAMs they nominated.⁵⁵ The meeting also invited Goodman, who nominated the Compass Group uncertain direct tax provisions KAM to discuss virtually his reasons for selecting this KAM and his views on how to improve CAMs.⁵⁶

⁵⁰ See PCAOB IAG Meeting PowerPoint Presentation (Aug. 20, 2025) (on file with MIAG).

⁵¹ See The Boeing Company, Form 10-K at 121-22 (2024),

<https://www.boeing.com/content/dam/boeing/boeingdotcom/company/annual-report/2024/2024-annual-report.pdf>.

⁵² See Rolls-Royce Holdings plc, Ind. auditors' report at 200-01 (2024), <https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2025/2024-annual-report.pdf>.

⁵³ See Compass Group PLC, Annual Report at 129 (2024), <https://www.compass-group.com/content/dam/compass-group/corporate/oar-2024/annual-report-2024.pdf>.

⁵⁴ See PCAOB IAG Meeting (Sept. 25, 2025, Part 2 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-september-2025> (comments of Jeff Mahoney during discussion of agenda item: "IAG Presentation to the Board: Decision-Useful Critical Audit Matters").

⁵⁵ See *id.*

⁵⁶ See PCAOB IAG Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: "IAG Presentation to the Board: Decision-Useful Critical Audit Matters").

SECTION III. FINDINGS & ANALYSIS

“The UK continues to lead the world in the quality of Auditor Reports, and likely overall audit quality,” said Goodman.⁵⁷ Specifically, Goodman considers UK KAMs to be more effective in at least two ways. First, UK KAMs are better formatted in that they contain conclusions and more quantitative information, explaining to the investors what the auditors have found, in addition to what they have done. As Mooney, the nominator of the Rolls-Royce KAMs, noted:

“... I like how they have a concluding sentence to the effect of ‘We found...’”⁵⁸

When recommending the Compass Group UK KAM and responding to a question on how to further improve those KAMs, Goodman similarly remarked:

“...[T]he KAMs KPMG provided are telling me, telling other investors a story ... These KAMs are helping me to understand the audit process ... KPMG’s KAMs ... are talking to the client, which [are] investors, versus ... CAMs appear to be ... serving the needs of management, which is a fundamental concern among investors about the auditing industry...”

“As far as how to improve [the KAMs], similar to Elizabeth’s comments on Rolls, it’ll be nice to have a greater view of more of an opinion ... in this KAM, they say everything’s fine, but ...at what level of confidence? What were you concerned about? There could be more detail ... while overall I think it is a great KAM ... there could be more [auditors’] voice in the write up.”⁵⁹

While not a KAM and containing neither a conclusion nor quantitative information, the Boeing fixed-price development contracts CAM also demonstrates some level of explicitness, walking the investors through the problems encountered by the auditors. As Anonymous explained:

“Further, the auditor follows up on this issue with a good amount of specificity about the nature of the issue and the audit procedures they undertook to understand and assess this exposure. As a result of these not being boilerplate disclosures, financial statement users were able to come to have a more nuanced understanding of a material issue for the company, and we have a better appreciation and understanding for

⁵⁷ See 2024 Critical and Key Audit Matter Nominations & Related Materials, *supra* note 49 at 43.

⁵⁸ *Id.*

⁵⁹ See PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: **“IAG Presentation to the Board: Decision-Useful Critical Audit Matters”**).

how the auditor has gone about navigating this exposure in a thoughtful and thorough manner.”⁶⁰

Second, UK KAMs often explore lesser-known areas, such as the effect of tax provisions. According to Goodman:

“Taxes are often a black box for investors, and an area of high measurement uncertainty. This KAM highlighted the uncertainty and helped investors understand the process auditors go through to test tax estimates.”⁶¹

Likewise, the Rolls-Royce KAM also explored an aspect of the business particular to the industry and explained how this unique aspect might post challenging questions to the auditors. As the KAM disclosure stated:

“The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the expected lifetime revenue and costs of the contract and the amounts of revenue and profit/loss that are recognised in each reporting period.”⁶²

Exploring lesser-known topics of investors’ interest is important, and it distinguishes value-added CAMs from those that are merely fulfilling regulators’ expectations, because the purpose of CAMs were, in part, to remediate against the information asymmetry between investors and management and help investors make more prudent investment decisions.⁶³ Unfortunately, many CAM disclosures are simply repeating prior year matters, which “reinforce[s] the false negative that auditors are not providing much value to the investors.”⁶⁴

⁶⁰ E-mail from Anonymous to Jeff Mahoney, Gen. Couns., CII (Aug. 20, 2025, 4:31 PM EST) (on file with MIAG); see PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

⁶¹ PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

⁶² Rolls-Royce Holdings plc, Ind. auditors’ report at 200.

⁶³ See Communicating Key Audit Matters in the Independent Auditor’s Report, ISA 701 at ¶ 2 (“The purpose of communicating key audit matters is to enhance the communicative value of the auditor’s report by providing greater transparency about the audit that was performed.”).

⁶⁴ PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

SECTION IV. CONCLUSION AND SUGGESTIONS

MIAG believes CAMs can be further improved in at least three major ways:

- 1) **CAMs should include what the auditors found.** As Mooney highlighted, “Understanding what the auditors found is of great interest to investors since investors use the auditor’s report to see the financial statements through the eyes of the auditor.”⁶⁵ Investors are generally not familiar with auditing procedures, and CAMs should provide them with an opportunity to communicate with the auditors. Nevertheless, this year’s nominators continued to express concerns regarding the lack of decision-useful information communicated, especially what the auditors found. As Goodman stated during the September 25 meeting:

“[I]t would be nice to have a greater view of more of an opinion.... They say everything’s fine, but you know what level of confidence? What were you concerned about? So, there could be more detail.”⁶⁶

Mooney, who appreciated the Rolls-Royce KAM for its conclusion sentence, also thought that there was room for improvement:

“The concluding sentence of what the auditor found for the first KAM (and all five, actually) is too broad with a lot of wiggle room unfortunately, but at least they have a sentence of what they found!”⁶⁷

To facilitate communication, auditors should present their findings by including a detailed conclusion. Indeed, the working group of a predecessor to the IAG had been emphasizing the importance of auditors revealing what they have found as early as 2016⁶⁸ and continued to highlight this as an area in need of improvement as described in the Recommendation.⁶⁹ According to the Recommendation, Paragraph .14(c) of the AS 3101 should have used more prescriptive language, such as “must describe” instead of “may describe” to require auditors to communicate more information.⁷⁰ MIAG continues to believe that an amendment to Paragraph .14(c) is necessary to make CAMs more useful to investors.

⁶⁵ E-mail from Elizabeth Mooney to Jeff Mahoney, Gen. Couns., CII (Sept. 4, 2025, 4:01 PM EST) (on file with MIAG).

⁶⁶ See PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

⁶⁷ 2024 Critical and Key Audit Matter Nominations & Related Materials, *supra* note 49 at 30.

⁶⁸ See Letter from members of the Auditor’s Rep. Working Group for the 2016 ann. meeting of the PCAOB’s IAG to the Office of the Sec’y, PCAOB, *RE: PCAOB No. 2016-003, Rulemaking Docket No. 34 – Proposed Auditing Standard – The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Auditing Standards* (Aug. 15, 2016), https://pcaobus.org/Rulemaking/Docket034/083c_IAG.pdf.

⁶⁹ See MIAG, *PCAOB Investor Advisory Group Recommendation: Improving Critical Audit Matters Disclosures*, *supra* note 23 at 10.

⁷⁰ See *id.*

- 2) **CAMs should explore non-routine topics that are more likely to provide decision-useful information.** Perhaps fearing that unique CAMs will reveal information that the management would prefer not to be disclosed, many auditors use the same topics for their CAMs every year.⁷¹ However, repeating CAM topics may offer little additional information to investors. “Goodwill” is one example of a recurring topic was discussed during the September 25 meeting:

“[G]oodwill ... is one of the most common CAMs you see out there. However, it is typically not a very material issue for equity and bond investors. For equity investors it is a sunk cost, for bond investors there is no collateral there.”⁷²

Accordingly, auditors are encouraged to use CAMs as an opportunity to actively explore more unique, lesser-understood topics, such as tax provisions, to communicate with investors.⁷³

- 3) **The number of CAMs reported should increase.** Many commentators have noted the continuing trend of a declining the number of CAMs.⁷⁴ Recent research shows that, in 2024, 77% of the auditor’s opinions have only one CAM, and the average number of

⁷¹ See Trevor Harris, Rajani Krishnan & Shiva Rajgopal, *Is the PCAOB effective? Insights from Interviews* 52 (Sept. 10, 2025) (on file with MIAG) (“... [CAM] is never going to amount to anything because the auditors are going to be living in fear that they’re going to piss off the client by highlighting things that could be risks.”); Emily Griffith, Linette Rousseau & Karla M. Zehms, *How do U.S. audit partners implement CAM reporting?* 22 (Jan. 13, 2025) (on file with MIAG) (quoting a national office partner: “...I think because of that desire to not want to be an outlier, at times people are trying to write a CAM to make it look and feel as consistent as they can with a peer when it’s not directly on point.”).

⁷² PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

⁷³ See 2024 Critical and Key Audit Matter Nominations & Related Materials, *supra* note 49 at 2 (“Our research shows that CAMs relating to non-routine issues (i.e., those that are not ‘sticky’ over time) are more decision useful than those relating to routine issues.”); Jessica A. Nysten, Daniel D. Wangerin & Karla M. Zehms, *Differences in Key Audit Matter and Critical Audit Matter Disclosures for the Same Client* 4 (Aug. 19, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4569474 (“... KAMs tend to cover a wider array, e.g., discussing topics like information technology, subsidiaries/affiliates, financial statement presentation and disclosure, going concern, internal controls, regulatory compliance, and the effects of risks around COVID and climate change.”); Voice Corp. Governance, *Why Are Key Audit Matter Disclosures Incrementally Informative Compared to Critical Audit Matter Disclosures?*, CII at 08:45 (Feb. 15, 2024), <https://www.buzzsprout.com/202904/episodes/14511967-why-are-key-audit-matter-disclosures-incrementally-informative-compared-to-critical-audit-matter-disclosures> (discussing that KAMs cover a wider array of topics).

⁷⁴ See Emily Griffith, Linette Rousseau & Karla M. Zehms, *How do U.S. audit partners implement CAM reporting?* 23-30 (Jan. 13, 2025) (on file with MIAG) (discussing the common practices among auditors to report one recurring CAM every year); Keith Czerney & Daun Jang, *An Examination of Critical Audit Matter Disclosure Quality* 31 (Jan. 12, 2025) (finding that auditors report fewer CAMs than expected 88% of the time and supporting the idea that auditors may not be disclosing as many CAM topics as expected); Voice Corp. Governance, *Disappearing Audit Disclosure: Changes in the Reporting of Critical Audit Matters with Kate Suslava*, CII at 06:55 (June 8, 2023), <https://www.buzzsprout.com/2SFJune02904/episodes/13003288-disappearing-audit-disclosure-changes-in-the-reporting-of-critical-audit-matters-with-kate-suslava> (noting the decreasing number of CAMs two years after the implementation and urging the PCAOB to educate the public about the significance and meaning of CAMs).

CAMs has been steadily decreasing since 2020.⁷⁵ Of note, during the September 25 meeting, Goodman specifically praised KPMG for having four KAMs in the Compass Group auditor's report, while many firms only have one or two.⁷⁶ Anonymous had similarly praised Boeing for having 3 CAMs this year.⁷⁷ Consistent with the MIAG's recommendations for improving CAMs in last year's report, the language and intent of AS 3101, and recent academic research, auditors should consider increasing the number of CAMs included in their reports.⁷⁸

Other suggestions proposed to MIAG for improving the usefulness of CAMs included:

- Adding quantitative information to the body of the disclosures;⁷⁹
- Providing more descriptions of the audit procedures performed;⁸⁰
- Using more bullet points;⁸¹
- Increasing coverage of CAMs on investment research platforms.⁸²

Looking forward, the MIAG continues to encourage auditors to voluntarily improve the quality and quantity of the information communicated to investors in their auditor's reports. Auditors are

⁷⁵ See Ideagen, *Critical audit matters, A five-year review: 2020-2024* at 5 (2025), https://go.ideagen.com/critical-audit-matters-report-2025?_gl=1*i350vy*_gcl_au*Mzc0NDI0MzcyljE3NjE3NDI3NzI.

⁷⁶ See PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Jared Goodman during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

⁷⁷ See 2024 Critical and Key Audit Matter Nominations & Related Materials, *supra* note 49 at 11.

⁷⁸ See *The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023*, *supra* note 32 at 14-15.

⁷⁹ See *supra* Section III.

⁸⁰ See Zhuoli Axelton, Jeffrey Gramlich & Brandon Szerwo, *Insights from Auditors' Disclosures of How They Addressed Critical Audit Matters* 29 (June 30, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4969676 (discussing the positive relationship between the disclosure of audit procedures performed and the thoroughness of the audit and the quality of the report). Note that the three finalists CAMs/KAMs this year disclosed 8, 17, and 7 procedures, respectively, thus, two nominees exceeded the number of procedures (7) in the CAM nominated by the authors (nominee #9). See also Voice Corp. Governance, *Insights from Auditors' Disclosures of How They Addressed Critical Audit Matters with Brandon Szerwo*, CII at 12:35 (Sept. 26, 2024), <https://www.buzzsprout.com/202904/episodes/15822428-insights-from-auditors-disclosures-of-how-they-addressed-critical-audit-matters-with-brandon-szerwo> (“...[A]s ... the number of procedures disclosed in CAM increases ... audit quality is actually going up.”).

⁸¹ See 2024 Critical and Key Audit Matter Nominations & Related Materials, *supra* note 49 at 16 (“The SEC’s plain English handbook (1998) recommends the use of bulleted lists instead of denser paragraphs. An implication of our study is that if auditors more consistently write CAMs based on plain English principles such as bullet points, it could enhance the overall readability and potentially the usefulness of CAMs.”); Monica Kabutey, Eric T. Rapley & Jesse C. Robertson, *Improving the usefulness of critical audit matters through readability* (2025); Brian Carver, Leah Muriel & Brad S. Trinkle, *Critical Audit Matters and Nonprofessional Investors' Perceptions of Auditor Credibility, Information Overload, Audit Quality and Investment Risk*, *Current Issues Auditing* 6 (Mar. 19, 2025), <https://doi.org/10.2308/CIIA-2024-033> (“Auditors should also consider whether different presentation styles may aid the readability of a CAM (for example, smaller paragraphs, bullet points, providing additional quantitative information when appropriate) similar to the changing style of PCAOB inspection reports over the years.”); Edward J. Lynch, *Examining the Readability of Critical Audit Matters (and what it suggests to educators)*, *Acct. Educ. J.* 102 (2024) <https://aejournal.com/ojs/index.php/aej/article/download/1130/321> (“Several potentially quick/easy straightforward opportunities to improve are identified with respect to greater use of: subheadings, bulleted lists, and shorter sentence length.”).

⁸² See PCAOB Investor Advisory Group Meeting (Sept. 25, 2025, Part 2 of 2) (comments of Mary Bersot during discussion of agenda item: “**IAG Presentation to the Board: Decision-Useful Critical Audit Matters**”).

encouraged to look at their international counterparts, in particular UK auditors, for guidance and improvement.

We want to thank all the individuals and organizations that nominated critical or key audit matters for MIAG's consideration this year, and we congratulate those responsible for the three most decision-useful KAMs/CAMs for 2024. We are currently planning to seek nominations for "The Third Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2025" in Spring 2026, and we are optimistic that next year's nominations will demonstrate improved quality and quantity of CAMs consistent with the auditors' professional responsibilities to their primary customers—investors.

APPENDIX 1

2024 FIGURES

Figure 1. Type of Nominations

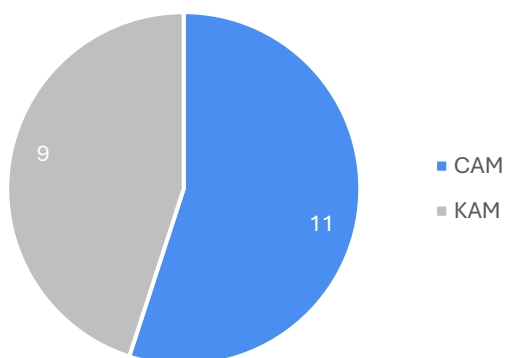


Figure 2. Auditors of CAMs or KAMs Nominated

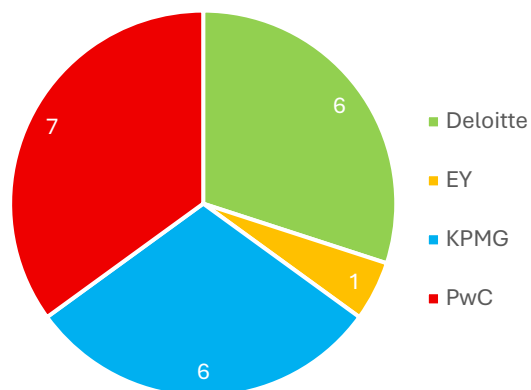


Figure 3. Nominations by Registrants

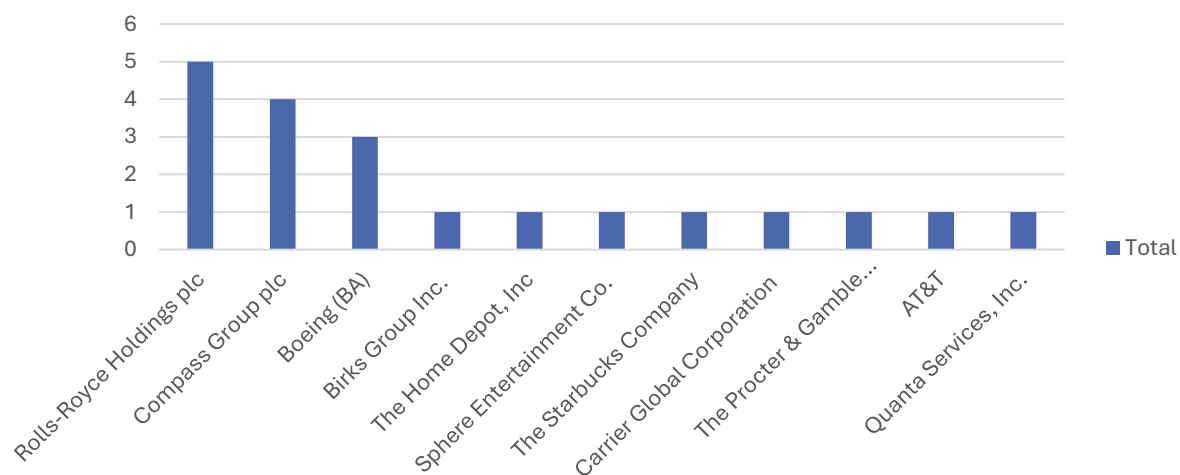


Figure 1. Type of nomination

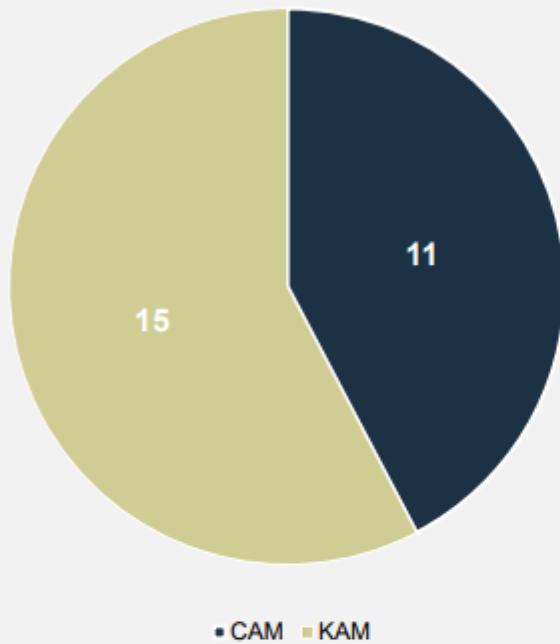


Figure 2. Auditors of CAMs or KAMs nominated

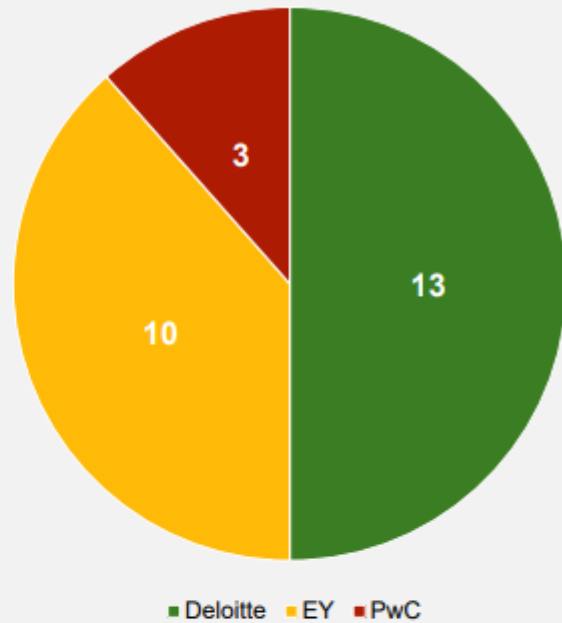
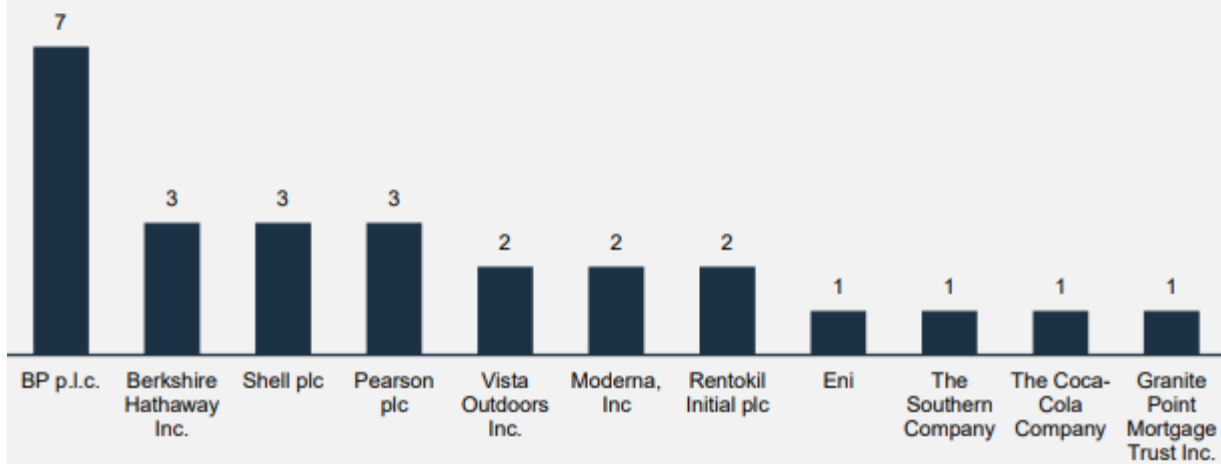


Figure 3. Nominations by registrant



Audit Matter	Category	Registrant	Audit Firm	Nominator(s)	Summary of Nominator Comments
Acquisition of Cupertino Electric, Inc. – Valuation of Customer Relationships and Trade Name Intangible Assets	CAM	Quanta Services, Inc.	PwC	Karla M. Zehms	Discussed non-routine issues and enhanced investors' understanding on these issues with high uncertainty.
Acquisition of the VCS Business - Valuation of Intangible Assets Acquired	CAM	Carrier Global Corporation	PwC	Karla M. Zehms	Discussed non-routine issues and enhanced investors' understanding on these issues with high uncertainty.
Allocation of consideration between intangibles and goodwill related to the acquisition of HOFMANN and CH&CO (group)	KAM	Compass Group plc	KPMG	Jared Goodman	Incorporated a "healthy amount of numbers" and revealed the communication that occurred between the auditors and the audit committee.
Assessment of the Company's ability to continue as a going concern	CAM	Birks Group Inc.	KPMG	Karla M. Zehms	Discussed non-routine issues and enhanced investors' understanding on these issues with high uncertainty.
Cost Estimates for Fixed-Price Development Contracts — Refer to Notes 1 and 14 to the financial statements	CAM	Boeing (BA)	Deloitte	Anonymous	Detailed in their description of the issues and in describing what they did to address them in the audit.
Deferred tax asset recognition and recoverability (group)	KAM	Rolls-Royce Holdings plc	PwC	Elizabeth Mooney	It has a concluding sentence and illustrates what the auditors found.
Discount rates used in determining pension and postretirement benefit obligations	CAM	AT&T	EY	Stephen P. Percoco	Contained quantitative data and a non-standard topic of focus.
Estimation of store shrink	CAM	The Home Depot, Inc	KPMG	Eric T. Rapley	Highly readable and includes bullet points.

Goodwill Impairment Assessments for China Reporting Unit — Refer to Note 8 to the financial statements	CAM	The Starbucks Company	Deloitte	Brandon Szerwo	Describes in detail what was performed and the purposes of each test; avoids duplication of information found elsewhere in the 10-K; and conveys its content at an appropriate level for experienced investors.
Goodwill impairment in respect of the UK cash-generating unit (Group)	KAM	Compass Group plc	KPMG	Jared Goodman	Revealed the communication that occurred between the auditors and the audit committee.
Intangible Assets — Gillette Indefinite-Lived Intangible Asset — Refer to Notes 1 and 4 to the financial statements	CAM	The Procter & Gamble Company	Deloitte	Eric T. Rapley	Most readable according to a combined measure of three indices.
Liquidity and Going Concern — Refer to Notes 2 and 13 to the financial statements	CAM	Sphere Entertainment Co.	Deloitte	Karla M. Zehms	Discussed non-routine issues and enhanced investors' understanding on these issues with high uncertainty.
Long-term contract accounting and associated provisions (group)	KAM	Rolls-Royce Holdings plc	PwC	Elizabeth Mooney	Contained concluding sentence. Most specific among the Rolls-Royce KAMs.
Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)	KAM	Rolls-Royce Holdings plc	PwC	Elizabeth Mooney	Contained concluding sentence.
Program Accounting Estimates for the 737 Program — Refer to Notes 1 and 8 to the financial statements	CAM	Boeing (BA)	Deloitte	Anonymous	Detailed in their description of the issues and in describing what they did to address them in the audit.
Program Accounting Estimates for the 777X Program — Refer to Notes 1 and 8 to the financial statements	CAM	Boeing (BA)	Deloitte	Anonymous	Detailed in their description of the issues and in describing what they did to address them in the audit.

Recoverability of Parent Company's investment in subsidiaries (Parent company)	KAM	Compass Group plc	KPMG	Jared Goodman	Revealed the communication that occurred between the auditors and the audit committee.
Recoverability of the company's investments in subsidiary undertakings (company)	KAM	Rolls-Royce Holdings plc	PwC	Elizabeth Mooney	Contained concluding sentence.
Translation of foreign currency denominated transactions and balances (group)	KAM	Rolls-Royce Holdings plc	PwC	Elizabeth Mooney	Contained concluding sentence.
Uncertain direct tax provisions (Group)	KAM	Compass Group plc	KPMG	Jared Goodman	Revealed the communication that occurred between the auditors and the audit committee. This KAM stands out because it covers taxes, a relatively overlooked and complicated area.