

# The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023

December 2024

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This report has three sections followed by a conclusion. The first section provides an overview of the U.S. and international auditing standards requiring key or critical audit matters. The second section discusses the 2023-2024 activities of the IAG relating to critical audit matters (CAMs). The third section discusses the IAG annual evaluation of CAMs which includes the objective, process, and the most decision-useful CAMs for 2023.

## I. An Overview of Standards Requiring Key or Critical Audit Matters

### Department of Treasury Recommendation

In 2007, U.S. Treasury Secretary Henry M. Paulson, Jr., created an Advisory Committee with the goal of examining comprehensively the condition and future of the auditing profession (ACAP).<sup>1</sup> The ACAP, included a philosophically diverse group of investors, business, academic, and institutional leaders,<sup>2</sup> including IAG members Ken Goldman<sup>3</sup> and Lynn Turner.<sup>4</sup>

The ACAP was co-chaired by former Securities and Exchange Commission (SEC) Chair Arthur J. Levitt, Jr. and former SEC Chief Accountant and PricewaterhouseCoopers LLP (PwC) Senior Partner Donald T. Nicolaisen.<sup>5</sup> The ACAP's work resulted in one of the most comprehensive and significant studies of the U.S. auditing profession ever produced.

In 2008, the ACAP issued a final report that contained more than 30 recommendations.<sup>6</sup> Those recommendations included one urging the PCAOB to undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model that had remained largely unchanged for more than 70 years.<sup>7</sup> That recommendation is based on the view that improving the content of the auditor's report beyond its traditional pass/fail model would better reflect the amount of work and judgment involved in a financial statement audit and would lead to more relevant information for investors and other users of financial statements.<sup>8</sup>

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<sup>1</sup> See Advisory Committee on Auditing Prof., Final Rep., Dep. Treas. IV:1 (Oct. 6, 2008) (on file with the IAG) (“Secretary Paulson announced the Committee’s membership on October 2, 2007, with members drawn from a wide range of professions, backgrounds, and experiences.”).

<sup>2</sup> See *id.* at II:3 (“This Report represents nearly one year’s efforts of a philosophically diverse, talented, and committed group of investors, business, academic, and institutional leaders.”).

<sup>3</sup> See *id.* at III:3.

<sup>4</sup> See *id.* at III:1.

<sup>5</sup> See *id.* at F:1-2. (“the Treasury has asked Arthur Levitt, former SEC chairman, and Donald Nicolaisen, former SEC chief accountant, to serve as co-chairs of a non-partisan committee to address auditing industry concentration, and to consider options available to strengthen the industry’s financial soundness and its ability to attract and retain qualified personnel.”).

<sup>6</sup> See *id.* at II:3 (“The Report of the Committee offers thirty-one recommendations derived from the deliberations of three Subcommittees each focused on one of three key areas—human capital, firm structure and finances, and concentration and competition.”).

<sup>7</sup> See *id.* at VII:13 (“**Recommendation 5: Urge the PCAOB to undertake a standard-setting initiative to consider improvements to the auditor’s standard reporting model.**”)

<sup>8</sup> See *id.* at VII:14 (“Some believe this pass/fail model with its standardized wording does not adequately reflect the amount of auditor work and judgment.”).

## Issuance of Key Audit Matters Standard

In 2014, the International Auditing and Assurance Standards Board<sup>9</sup> issued International Standards on Auditing 701, *Communicating Key Audit Matters in the Independent Auditor's Report* (ISA 701).<sup>10</sup>

ISA 701 defines key audit matters (KAMs) 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.<sup>11</sup>

ISA 701 requires the auditor to disclose in the auditor's report how the KAMs were addressed in the audit and states that such disclosure may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- A brief overview of procedures performed;
- Key observations with respect to the matter, or some combination of these elements.

Law or regulation or national auditing standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.<sup>12</sup>

Two months after ISA 701 was issued, the European Union (EU) adopted expanded auditor reporting requirements for audits of public interest entities (PIEs), such as listed companies, credit institutions, and insurance companies (2014 EU Reforms).<sup>13</sup> Under the 2014 EU Reforms, the auditor's report for PIEs is required to include a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud, as well as a summary of the auditor's response to those risks and, where relevant, key observations

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<sup>9</sup> See About IAASB, IAASB (last visited Nov. 23, 2024), <https://www.iaasb.org/about-iaasb>.

<sup>10</sup> See Comm. Key Audit Matters in the Indep. Auditor's Rep., 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>.

<sup>11</sup> *Id.* ¶ 8.

<sup>12</sup> *Id.* ¶ A46.

<sup>13</sup> See REG. (EU) No 537/2014 EUROPEAN PARLIAMENT & COUNCIL on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, Official J. EU at L 158/77 (Apr. 16, 2014), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537>.

arising with respect to those risks.<sup>14</sup> The EU “also requires that the auditor describe key observations with respect to the most significant assessed risks of material misstatement.”<sup>15</sup>

ISA 701 went into effect “for audits of financial statements for periods ending on or after December 15, 2016.”<sup>16</sup>

## Issuance of CAMs Standard

In 2017, after more than six years of public due process, including three rounds of solicitation of public comments, the PCAOB adopted Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (AS 3101).<sup>17</sup> AS 3101 was intended to be generally consistent with ISA 701 and responsive to the ACAP recommendation by requiring that an auditor of a public company communicate CAMs in any audit opinion relating to its audit of the company’s current period financial statements.<sup>18</sup>

AS 3101 defines CAMs in paragraph .11 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.<sup>19</sup>

And paragraph .14(c) of AS 3101 requires the auditor to disclose in the auditor’s report how the CAM was addressed in the audit and provides that such disclosure 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.<sup>20</sup>

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<sup>14</sup> See *id.* at L 158/90 (“provide, in support of the audit opinion, the following: (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and (iii) where relevant, key observations arising with respect to those risks”).

<sup>15</sup> Auditor’s Rep. on an Audit Fin. Statements When Auditor Expresses an Unqualified Opinion & Related Amendments to PCAOB Standards, PCAOB Release No. 2017-001 at 30 n.48 (June 1, 2017), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket034/2017-001-auditors-report-final-rule.pdf?sfvrsn=14ad22c9\\_0](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket034/2017-001-auditors-report-final-rule.pdf?sfvrsn=14ad22c9_0).

<sup>16</sup> ISA 701, ¶ 6.

<sup>17</sup> See PCAOB Release No. 2017-001 at 1 (“The Board is adopting the final standard after more than six years of outreach and public comment, including comments from members of the Board's Standing Advisory Group (‘SAG’) and Investor Advisory Group (‘IAG’).”).

<sup>18</sup> See *id.* at 15 (“Consistent with the Board's statutory mandate under Section 101(a) of Sarbanes Oxley and in response to the ACAP recommendation and continued investor support for expanded auditor reporting, the final standard includes the requirement to communicate critical audit matters substantially as repropoed.”).

<sup>19</sup> *Id.* at A1 – 15.

<sup>20</sup> *Id.* at A1 – 9.

We note that CAMs are intended to provide tailored information specific to the audit—from the auditor’s point of view.<sup>21</sup> We also note that an August 15, 2016, letter from the IAG’s “Auditor’s Report Working Group” to the PCAOB stressed the importance to investors of disclosure of the auditor’s findings referenced in items (3) and (4) (IAG 2016 Letter).<sup>22</sup> The IAG 2016 Letter described those disclosures as providing “the greatest value to investors.”<sup>23</sup>

AS 3101 went into effect for audits of larger U.S. public companies in 2019,<sup>24</sup> and was required for audits of most other U.S public companies in 2020.<sup>25</sup>

## II. 2023-2024 IAG Activities Relating to CAMs

In May 2023, Members of the IAG (MIAG) issued a comment letter (MIAG May Letter)<sup>26</sup> in response to the PCAOB’s proposed new auditing standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* (Proposed AS 1000).<sup>27</sup> Proposed AS 1000 included several amendments to AS 3101.<sup>28</sup> The MIAG May Letter includes the following discussion and recommendation of an additional amendment to AS 3101:

On page A4-23 of the Proposal, it discusses in paragraph .11 Determination of Critical Audit Matters. In item (2) of that paragraph, it uses the term “especially” which has given rise to a concern this term is being used to avoid reporting of a critical audit matter. We believe this word should be deleted.<sup>29</sup>

The IAG June 2023 meeting included an agenda item: “**Briefing to the PCAOB – Critical Audit Matters**” (IAG CAM Briefing).<sup>30</sup> The IAG CAM Briefing consisted of an expert panel moderated by IAG’s Sandra Peters.<sup>31</sup> The panel included former PCAOB Chief Auditor Martin

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<sup>21</sup> See *id.* at 29-30 (“The auditor's description of the principal considerations should be specific to the circumstances and provide a clear, concise, and understandable discussion of why the matter involved especially challenging, subjective, or complex auditor judgment.”).

<sup>22</sup> Letter from Mary M. Bersot, CFA, CEO and Chief Investment Officer, Bersot Capital Mgmt. LLC to Off. Secretary, PCAOB 1 (Aug. 15, 2016), [https://pcaobus.org/Rulemaking/Docket034/083c\\_IAG.pdf](https://pcaobus.org/Rulemaking/Docket034/083c_IAG.pdf).

<sup>23</sup> *Id.*

<sup>24</sup> See PCAOB Release No. 2017-001 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.”).

<sup>25</sup> See *id.*

<sup>26</sup> See Letter from MIAG to Off. of Secretary, PCAOB (May 16, 2023), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/3\\_miag.pdf?sfvrsn=d18fac00\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/3_miag.pdf?sfvrsn=d18fac00_4).

<sup>27</sup> See Proposed Auditing Standard – Gen. Resp. Auditor Conducting an Audit & Proposed Amendments to PCAOB Standards, PCAOB Release No. 2023-001 (Mar. 28, 2023), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/pcaob-release-no.-2023-001-as-1000---proposed.pdf?sfvrsn=28304d26\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/pcaob-release-no.-2023-001-as-1000---proposed.pdf?sfvrsn=28304d26_4).

<sup>28</sup> See *id.* at A4-22 to -23 (setting forth the proposed amendments to “AS 3101: The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion”).

<sup>29</sup> See Letter from MIAG to Off. of Secretary, PCAOB at 6.

<sup>30</sup> Briefing to the PCAOB – CAMs Audit Matters, Subcomm. on Standards, PCAOB IAG (June 7, 2023), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/iag-june-7-2023/4.-briefing-cams.pdf?sfvrsn=c27adf0a\\_3](https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/iag-june-7-2023/4.-briefing-cams.pdf?sfvrsn=c27adf0a_3); see PCAOB IAG Meeting (June 7, 2023, Part 1 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-june-2023>.

<sup>31</sup> See Briefing to the PCAOB – CAMs Audit Matters, Subcomm. on Standards, PCAOB IAG at 5; PCAOB IAG Meeting (June 7, 2023, Part 1 of 2).

Bauman, former PCAOB Chief of Staff Samantha Ross, Dr. Colleen Honigsberg of Stanford Law School and Jared Goodman of the Colorado Public Employees Retirement Association.<sup>32</sup>

The purpose of the IAG CAM Briefing was to explore more than three years after AS 3101's required implementation, investor views on CAMs relative to their initial potential and to consider what changes to AS 3101 might be necessary for the disclosures to meet investors' expectations.<sup>33</sup>

Following the IAG CAM Briefing, Peters prepared a draft memorandum for IAG member input that included a recap of the agenda item and seven individual recommendations. A majority of MIAG members responding to the draft approved of the memorandum (MIAG CAM Memorandum).<sup>34</sup>

## MIAG CAM Memorandum

Peters presented the MIAG CAM Memorandum at the IAG's October 2023 meeting.<sup>35</sup> Of the seven recommendations contained in the MIAG CAM Memorandum, six are directed at the PCAOB or its staff.<sup>36</sup> Two of those recommendations include the following proposed amendments to AS 3101:

- (1) Revise the “especially challenging” language used in paragraphs .11<sup>37</sup> and .12<sup>38</sup> for identifying potential CAMs,<sup>39</sup> and
- (2) Revise the description in paragraph .14(c)<sup>40</sup> of how the critical audit matter was addressed in the audit.<sup>41</sup>

More specifically, with respect to the first proposed amendment to AS 3101, the MIAG CAM Memorandum indicated, consistent with the views expressed in the MIAG May Letter and by

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<sup>32</sup> See *id.*

<sup>33</sup> See PCAOB IAG Meeting (June 7, 2023, Part 1 of 2).

<sup>34</sup> See 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**”).

<sup>35</sup> See *id.*

<sup>36</sup> See PCAOB MIAG Recommendation, Improving CAM Disclosures 8-11 (Oct. 2023), (on file with the MIAG) (“**IAG Annual Evaluation of CAMs**” was the one recommendation not directed to the PCAOB or its staff).

<sup>37</sup> See PCAOB Release No. 2017-001 at A1 – 7 (“A critical audit matter 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: . . . involved especially challenging, subjective, or complex auditor judgment.”).

<sup>38</sup> See *id.* (“In determining whether a matter involved especially challenging, subjective, or complex auditor judgment, the auditor should take into account, alone or in combination, the following factors, as well as other factors specific to the audit . . .”).

<sup>39</sup> See PCAOB MIAG Recommendation, Improving CAM Disclosures at 9 (“the PCAOB should promptly revise the ‘especially challenging’ language used in the standard for identifying potential CAMs”).

<sup>40</sup> See PCAOB Release No. 2017-001 at A1 – 9 (“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.”).

<sup>41</sup> See PCAOB MIAG Recommendation, Improving CAM Disclosures at 10 (“**Describe the Auditor's Observations, Not Simply Their Audit Procedures**”).

Bauman at the IAG June meeting,<sup>42</sup> that the especially challenging language (1) has been interpreted narrowly in a manner that results in a fewer number of CAMs being disclosed — “about 1.5”<sup>43</sup> — than the PCAOB had intended,<sup>44</sup> and (2) “may actually discourage auditors from issuing potential CAMs.”<sup>45</sup> And Bauman’s recommendations included amending AS 3101 to replace the word “especially” with the word “more.”<sup>46</sup>

The second proposed amendment to AS 3101, would eliminate the option that currently permits auditors to omit two related categories of information about CAMs that “are of most interest to investors.”<sup>47</sup> That information includes an “indication of the outcome of the audit procedures performed”<sup>48</sup> and “key observations with respect to the matter.”<sup>49</sup> As indicated in the IAG 2016 Letter, those two disclosures provide “the greatest value to investors.”<sup>50</sup>

Some members of the IAG are hopeful that the PCAOB’s current research agenda project: “*Communication of Critical Audit Matters*”<sup>51</sup> will soon become a standard-setting project and result in proposed amendments to AS 3101 that address these two MIAG CAM recommendations.<sup>52</sup>

The seventh recommendation included in the MIAG CAM Memorandum, presented at the October IAG meeting,<sup>53</sup> and described as “*IAG Annual Evaluation of CAMs*”<sup>54</sup> states:

Finally, several IAG members have suggested that, on an annual basis, the PCAOB IAG publicly solicit nominees for best CAMs – . . . and identify three CAMs that the IAG members believe are particularly insightful or useful to investors. Those three CAMs would then be included in an annual IAG public report which includes an explanation as to why the three CAMs were viewed by the IAG to be particularly

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<sup>42</sup> See PCAOB IAG Meeting (June 7, 2023, Part 1 of 2) (Martin Bauman comments during discussion of agenda item: “**IAG Subcommittee on Standards Briefing to the PCAOB – Critical Audit Matters**”).

<sup>43</sup> Briefing to the PCAOB – Critical Audit Matters, Subcomm. on Standards, PCAOB IAG Meeting at 13.

<sup>44</sup> See PCAOB MIAG Recommendation, Improving CAM Disclosures at 4 (“The phrase ‘especially challenging’ in the CAM definition may be signaling to auditors that only one or two CAMs are sufficient, which was not the intention of the PCAOB.”).

<sup>45</sup> *Id.* at 10.

<sup>46</sup> PCAOB IAG Meeting (June 7, 2023, Part 1 of 2) (Martin Bauman comments during discussion of agenda item: “**IAG Subcommittee on Standards Briefing to the PCAOB – Critical Audit Matters**”); see Briefing to the PCAOB – Critical Audit Matters, Subcomm. on Standards, PCAOB IAG Meeting at 14 (“MODIFYING CAM LANGUAGE IN THE STANDARD (AMEND THE RULE”).

<sup>47</sup> PCAOB IAG Recommendation, Improving CAM Disclosures at 10.

<sup>48</sup> PCAOB Release No. 2017-001 at A1 – 9.

<sup>49</sup> *Id.*

<sup>50</sup> Letter from Mary M. Bersot, CFA, CEO and Chief Investment Officer, Bersot Capital Mgmt. LLC to Off. Secretary, PCAOB at 1.

<sup>51</sup> Research Projects, Communication of Critical Audit Matters, PCAOB (last visited Nov. 27, 2024), <https://pcaobus.org/oversight/standards/standard-setting-research-projects>.

<sup>52</sup> See Soyung Ho, PCAOB Investor Advisory Group Seeks Public Nominations for Best Critical Audit Matters, Thomson Reuters (Apr. 27, 2024), <https://tax.thomsonreuters.com/news/pcaob-investor-advisory-group-seeks-public-nominations-for-best-critical-audit-matters/> (“The audit regulatory board **added** CAMs to its **research agenda** in November following push by the IAG, and the panel wants the PCAOB to move on the project as quickly as possible.”).

<sup>53</sup> See PCAOB IAG Meeting (Oct. 10, 2023, Part 2 of 2) (Comments of Sandra Peters during discussion of agenda item: “**IAG Recommendations to the Board on Critical Audit Matters**”).

<sup>54</sup> PCAOB IAG Recommendation, Improving CAM Disclosures at 11.

insightful or useful to investors. The report could also include recognition of and comments from the engagement partners that were responsible for the winning CAMs. Among the many benefits of this recommendation is that it is a carrot, rather than a stick, and will likely be supported by the firms, and can be implemented this year.<sup>55</sup>

### III. IAG Annual Evaluation of CAMs

#### Announcement

The first annual IAG evaluation of CAMs was launched at the IAG April 2024 meeting.<sup>56</sup> At that meeting, IAG member Jeff Mahoney, announced the MIAG was seeking nominations from the general public, including from public companies, auditors, financial analysts and investors for the most decision-useful critical audit matters or key audit matters contained in public company audit reports included in 2023 Form 10-K and Form 20-F filings.<sup>57</sup>

Mahoney stated that the nominations, which could be submitted anonymously, would be accepted by the IAG through June 30, 2024.<sup>58</sup> He explained that those nominations received by the deadline would be reviewed and evaluated by the MIAG, and the MIAG would select what they believe to be the top three investor decision-useful CAMs or KAMs for 2023 among those nominated.<sup>59</sup> Those three CAMs or KAMs selected would be identified and discussed in an MIAG–approved report expected to be issued publicly before the end of 2024.<sup>60</sup>

Mahoney said the objective of this MIAG initiative, which he emphasized the MIAG planned to pursue on an annual basis,<sup>61</sup> is to encourage auditors to voluntarily improve the quality of

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<sup>55</sup> *Id.*

<sup>56</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-2024> (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.”).

<sup>57</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (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 (“The IAG is seeking nominations of the best auditor disclosures in 2023 Form 10-Ks and Form 20-Fs—the latter is filed by foreign private issuers.”).

<sup>58</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (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 (“The advisory panel will accept nominations until June 30”).

<sup>59</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (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 (“Following review of the nominated CAMs and KAMs, the IAG will select the top three decision-useful ones [ ] [t]hen the panel will identify and discuss those three in an IAG-approved report to be issued later this year”).

<sup>60</sup> *See id.*

<sup>61</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (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 (“He said the IAG plans to do this annually”).



information communicated to investors in the audit opinions of public companies.<sup>62</sup> He also emphasized that the initiative complements the MIAG’s support of the other six recommendations included in the MIAG CAM Memorandum.<sup>63</sup>

Following the IAG April Meeting, the PCAOB’s Office of Investor Advocate issued an “Investor Advisory”: *PCAOB Investor Advisory Group Requests Public Submit Examples of Critical or Key Audit Matters* (Investor Advisory).<sup>64</sup> The Investor Advisory included a link to an IAG announcement<sup>65</sup> and the following information:

The PCAOB Investor Advisory Group (IAG) is requesting critical audit matters or key audit matters for its analysis.

As explained at the IAG April 2024 meeting,

*The IAG is seeking nominations from the general public, including from public company issuers (management and boards), auditors, financial analysts and investors for the most decision useful critical audit matter (CAM) or key audit matter (KAM) contained in public company audit reports included in the 2023 Form 10-Ks and Form 20-Fs.*

*All timely nominations received will be reviewed and evaluated by the IAG. The IAG will select what they believe to be the top three decision useful CAMs or KAMs for 2023 among those nominated. Those CAMs or KAMs selected will be identified and discussed in an IAG report expected to be issued publicly later this year.*

*Each nomination (which may be submitted anonymously) should include an explanation (maximum five hundred words) of why the nominated CAM or KAM provides decision useful information to investors.*

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<sup>62</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Request for Critical Audit Matters**”); Soyoungh Ho, PCAOB Investor Advisory Group Seeks Public Nominations for Best Critical Audit Matters, Thomson Reuters (“The objective of this initiative... is to encourage auditors to voluntarily improve the quality of information communicated to investors”); see also Old Institutions, New Report: Auditors’ Experiences Implementing Critical Audit Matter Reporting with Karla Zehms, Voice Corp. Governance (Sept. 27, 2023), available at <https://www.buzzsprout.com/202904/episodes/13672012-old-institutions-new-report-auditors-experiences-implementing-critical-audit-matter-reporting-with-karla-zehms> (Professor Zehms discussing research on auditors’ experiences with critical audit matter reporting and concluding that providing positive feedback by highlighting when auditors are doing a good job with critical audit matter reporting could incentivize audit firms to meet investor demands for more transparent audit reporting).

<sup>63</sup> See PCAOB IAG Meeting (Apr. 24, 2024, Part 2 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Request for Critical Audit Matters**”).

<sup>64</sup> Investor Advisory: PCAOB Investor Advisory Group Requests Public Submit Examples of Critical or Key Audit Matters, PCAOB (Apr. 29, 2024) (footnote omitted), <https://pcaobus.org/resources/information-for-investors/investor-advisories/pcaob-investor-advisory-group-requests-public-submit-examples-of-critical-or-key-audit-matters>.

<sup>65</sup> PCAOB IAG Seeks Nominations from Public for Most Decision Useful Critical or Key Audit Matter of 2023, MIAG (Apr. 24, 2024), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/information/investor/iag-request-for-cams.pdf?sfvrsn=37fb223d\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/information/investor/iag-request-for-cams.pdf?sfvrsn=37fb223d_2).

The IAG has requested that the public provide submissions to the IAG by June 30, 2024.<sup>66</sup>

## Nominations

As of the June 30 deadline the MIAG received nominations from seven individuals or organizations<sup>67</sup> indicating support for 26 critical or key audit matters from 2023 audit reports<sup>68</sup> of 11 registrants filing Form 10-K's or Form 20-F's.<sup>69</sup> Those 26 critical or key audit matters and related information from the nominations are summarized in the Appendix to this report.

As illustrated in Figure 1 more than one half of the 26 nominations were KAMs. In addition, and as illustrated in Figure 2, the 26 nominations are derived from the audit opinions of three U.S. audit firms or their non-U.S. affiliates: Deloitte & Touche LLP (Deloitte), Ernst & Young LLP (EY), and PwC. And Figure 3 illustrates that of the 26 nominations, seven (six KAMs and one CAM) were from a single registrant—BP p.l.c.<sup>70</sup>

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<sup>66</sup> Investor Advisory: PCAOB Investor Advisory Group Requests Public Submit Examples of Critical or Key Audit Matters, PCAOB.

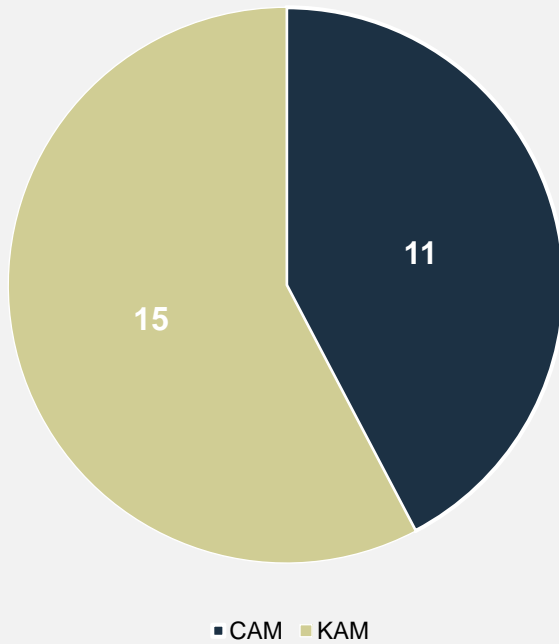
<sup>67</sup> The seven submissions exclude a June 27, 2024, letter from Steve Suppan, PH. D, Senior Policy Analyst, Institute for Agricultural & Trade Policy. Mr. Suppan's letter nominated two critical audit matter topics: (1) "Climate Value at Risk" and (2) "Artificial Intelligence Safety." Letter from Steve Suppan, PH. D, Senior Pol'y Analyst, Inst. for Agric. & Trade Pol'y to PCAOB (June 27, 2024) (on file with MIAG). The seven submissions also exclude a June 22, 2024, email from an Anonymous CPA-Retired. The Anonymous CPA-Retired nominated as a critical audit matter topic: "assess[ing] whether action(s) by management represent any material breach of management's fiduciary duty to stockholders;" and included stock buybacks as an example. E-mail from Anonymous CPA-Retired to Jeff Mahoney (June 22, 2024, 7:32 PM EST) (on file with MIAG).

<sup>68</sup> The twenty-six critical or key audit matters exclude three key audit matters and one critical audit matter nominations from filings that pre-date 2023. The critical audit matter excluded was: "Disclosure of Uncertainties – Plant Vogtle Units 3 and 4 Construction – Refer to Note 2 (Regulatory Matters – Georgia Power – Nuclear Construction) to the financial statements" from the 2019 Annual Report of Southern Company. *See* Southern Company, Ann. Report 17 (2019), [https://s27.q4cdn.com/273397814/files/doc\\_financials/2019/ar/SO\\_2019\\_AR\\_Final.pdf](https://s27.q4cdn.com/273397814/files/doc_financials/2019/ar/SO_2019_AR_Final.pdf). The 3 key audit matters excluded are from the BP p.l.c. annual report and Form 20-F for 2020 and include: "Potential impact of climate change and the energy transition; [] Impairment of upstream oil and gas property, plant and equipment (PP&E) assets; [and] Write-off of exploration and appraisal (E&A) asset". . . ." BP p.l.c., Ann. Rep. 130, 134-39 (2020), <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-financial-statements-2020.pdf>.

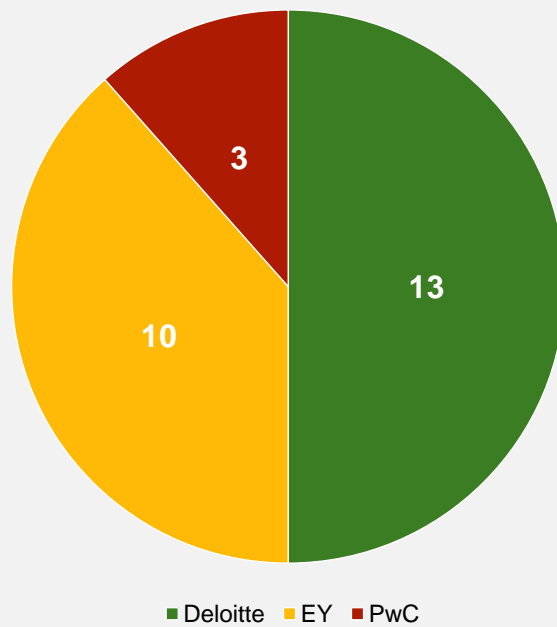
<sup>69</sup> *See* PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2), <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-september-2024> (comments of Jeff Mahoney during discussion of agenda item: "IAG Presentation Regarding IAG Request for Critical Audit Matters"); 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/> ("This year, the IAG received submissions from seven individuals or organizations, nominating 26 CAMs or KAMs from the 2023 audit reports . . .").

<sup>70</sup> *See* PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: "IAG Presentation Regarding IAG Request for Critical Audit Matters"). One member of the IAG observed that three of eleven registrants (BP p.l.c., Shell plc, and Eni SpA) are oil companies – "perhaps reflecting the relevance of C/KAMs to investors in an industry which needs to make particularly uncertain material judgements about the future." E-mail from David-Pitt Watson to Jeff Mahoney (Nov. 28, 2024, 2:51 AM EST) (on file with MIAG).

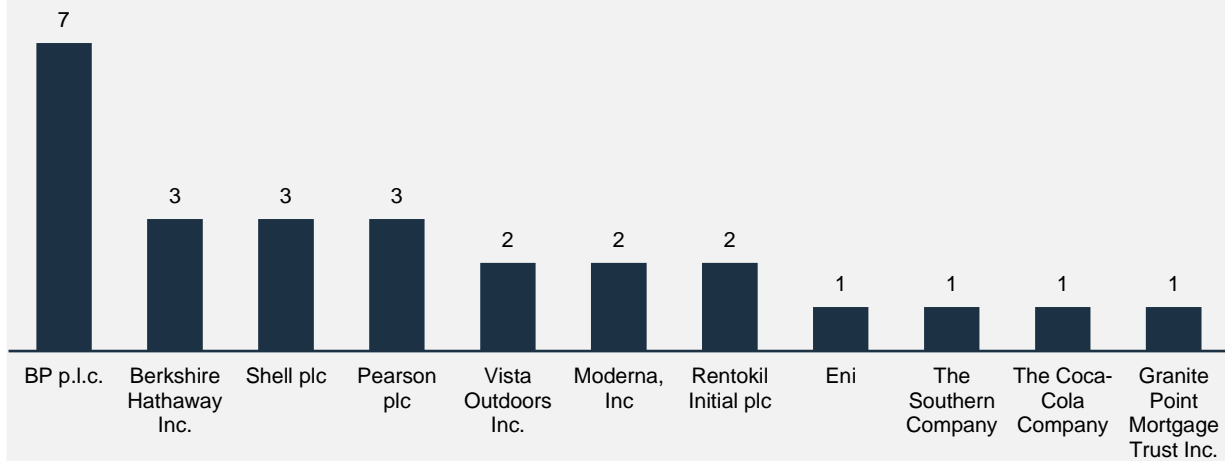
**Figure 1. Type of nomination**



**Figure 2. Auditors of CAMs or KAMs nominated**



**Figure 3. Nominations by registrant**



MIAG members were asked to review the 26 nominations together with the nominators’ explanations as to why they believed the CAMs or KAMs they submitted provided decision-useful information to investors.<sup>71</sup> The MIAG were also provided other information relating to the

<sup>71</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “IAG Presentation Regarding IAG Request for Critical Audit Matters”).

nominations for their review and analysis, including electronic links to the registrant’s financial statements.<sup>72</sup>

## Most Decision-Useful CAMs

After multiple rounds of voting by the MIAG, the three critical or key audit matters that received the most votes were as follows:

**Number 1:** Goodwill and Indefinite-Lived Intangible Assets CAM by Deloitte at Berkshire Hathaway Inc. (Berkshire);<sup>73</sup>

**Number 2:** Unpaid Losses and Loss Adjustment – Retroactive Reinsurance Contracts Expenses CAM by Deloitte at Berkshire;<sup>74</sup> and

**Number 3:** Raw Material Inventory Write-Downs CAM by EY at Moderna, Inc. (Moderna).<sup>75</sup>

The three most decision-useful CAMs for 2023 were all nominated by the same individual; Jack Ciesielski of R.G. Associates, Inc., and a former IAG member.<sup>76</sup>

## Public Announcement and Discussion

At the IAG’s September 2024 meeting, Mahoney provided some background on KAMs and CAMs, including recent MIAG public positions on CAMs, followed by a first public announcement of the three most decision-useful critical or key audit matters for 2023.<sup>77</sup> Mahoney also moderated a discussion with Ciesielski and IAG members about how the three CAMs (1) provide decision-useful information to investors and (2) could be further improved with that objective in mind.<sup>78</sup>

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<sup>72</sup> See *id.*

<sup>73</sup> Berkshire Hathaway Inc., Form 10-K at K-69 (2023), <https://www.berkshirehathaway.com/2023ar/202310-k.pdf>.

<sup>74</sup> *Id.* at K-68.

<sup>75</sup> Moderna, Inc., Form 10-K at 103 (2023), <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001682852/12d8720a-9f51-4695-b0e9-f2d45dff1c69.pdf>; see PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”); Soyung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters (“The Public Company Accounting Oversight Board’s (PCAOB) Investor Advisory Group (IAG) has presented three examples of the most decision-useful critical audit matters (CAMs) of 2023 as selected by the panel among those nominated by the public [and] [t]wo of the three CAMs were by Deloitte & Touche LLP for its audit of Berkshire Hathaway Inc., and the other was by Ernst & Young LLP for its audit of Moderna, Inc.”).

<sup>76</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”), Soyung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters (“The **winning** CAMs were all nominated by former IAG member Jack Ciesielski, president and portfolio manager of R.G. Associates, who also serves on the FASB’s Emerging Issues Task Force.”).

<sup>77</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>78</sup> See *id.*; Soyung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters (describing the comments of Jack Ciesielski, president and portfolio manager of R.G. Associates, on the three critical audit matters).

## How the Three CAMs Provide Decision-Useful Information to Investors?

The three CAMs have several common features that the MIAG believes provides decision-useful information to investors. As Ciesielski explained at the IAG September meeting:

[W]hen [I] . . . look at CAMs, it's to add to [my] knowledge of the company in question.

“If I am aware of some situation within the company that would seem to have some critical audit potential, I'd like to see that the auditors thought the same thing. And all three of these hit that mark” . . .<sup>79</sup>

More specifically, with respect to the Goodwill and Indefinite-Lived Intangible Assets CAM, Ciesielski indicated many investors in Berkshire would have been aware of problems that arose from the acquisition of Precision Castparts Corp.<sup>80</sup> And some of those investors would have an interest in the recoverability of the assets involved in that and other subsequent acquisitions.<sup>81</sup>

Moreover, with respect to the Unpaid Losses and Loss Adjustment – Retroactive Reinsurance Contracts CAM, Ciesielski indicated many investors in Berkshire, particularly those that follow the insurance sector, would have an interest in the audit procedures performed on the management estimates involved in the unpaid losses and loss adjustment expense accounts.<sup>82</sup> Ciesielski explained:

“If you are looking at an insurance company, you know that one of the biggest rubbery numbers on the balance sheet is going to be the reserve for unpaid losses and adjustments to a prior unpaid loss of liabilities.”

Further . . . [g]oodwill is going to be “a touchy thing,” and the well-known company had both.

“So I was happy to see that the auditors thought the same as me, that these are touchy situations for the balance sheet and entail audit risk.”

And in . . . [my] view, Deloitte did a good job of presenting those critical issues.<sup>83</sup>

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<sup>79</sup> Soyoung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters; see PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>80</sup> See, e.g., Jonathan Stemple, Warren Buffett's \$10 billion mistake: Precision Castparts, Reuters (Feb. 27, 2021), <https://www.reuters.com/article/business/warren-buffetts-10-billion-mistake-precision-castparts-idUSKCN2AR0MY/#:~:text=Precision%20shed%20more%20than%2013%2C400,to%20improve%20margins%2C%20Berkshire%20said.&text=%22I%20was%20wrong%20...the%20business%2C%22%20Buffett%20wrote> (quoting Warren Buffett: ““I was wrong . . . in judging the average amount of future earnings and, consequently, wrong in my calculation of the proper price to pay for the business,’ . . . PCC is far from my first error of that sort[] [b]ut it's a big one.””).

<sup>81</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>82</sup> See *id.*

<sup>83</sup> Soyoung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters; see PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

For both of Berkshire’s CAMs, the MIAG generally believed many investors would be interested in the quality of management’s estimates and judgments relating to the financial statement accounts described in the CAMs and their potential impact on company value.<sup>84</sup>

In the case of the Moderna, Raw Material Inventory Write-downs CAM, the MIAG generally believed that many investors would have had an interest in how the end of the pandemic would impact the demand for its COVID-19 vaccines.<sup>85</sup> As explained by Ciesielski:

[T]here was a known risk in the balance sheet or the income statement as expected after the end of the pandemic, and EY picked up on it.

“You knew that a big chunk of their business was going to go away, and the auditors did a fine job, I thought, of describing it,” . . . “Nobody ever had a vaccine like that before, and then had it suddenly become useless. Not a lot of prior experience for the company because the company was pretty new, too.”<sup>86</sup>

And, as with the Berkshire CAMs, the MIAG generally believed many investors would be interested in the quality of management’s estimates and judgments relating to the financial statement accounts described in the Moderna CAM and their potential impact on company value.<sup>87</sup>

Other factors that the MIAG found relevant in voting for the three CAMs included:

- The audit matter presents information about financial statement accounts that would be a red flag for many investors and would be expected to warrant closer auditor scrutiny and management disclosure;
- The auditor does an excellent job describing the matter and the challenges of auditing a complex measurement;
- Unlike many U.S. CAMs, the audit steps’ details were robust enough to help investors understand the audits’ process and gain confidence in audit quality;
- The audit matter presents information about financial statement accounts that are discussed in management’s disclosure of critical accounting estimates;
- The audit matter is not overly redundant; and
- The audit matter focuses on what the auditor did (information that cannot be found in the financial statements).

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<sup>84</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>84</sup> See *id.*

<sup>85</sup> See *id.*

<sup>86</sup> Soyung Ho, PCAOB Investor Panel Picks Deloitte, EY for Having 3 Most Useful Critical Audit Matters in 2023, Thomson Reuters; see PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>87</sup> See *id.*

## How the Three CAMs Could Be Improved?

In connection with the discussion at the IAG’s September Meeting, Mahoney commented on recent research by the Center for Audit Quality on CAMs (CAQ Survey).<sup>88</sup> The on-line survey of 100 U.S. institutional investors from July 9 – 22, 2024,<sup>89</sup> found that “92% of investors use CAMs when they are making investment decisions[;]”<sup>90</sup> and “93% of investors say that CAMs play an important role in their decision-making analysis of a potential investment.”<sup>91</sup>

The CAQ Survey also contained the following two findings that the MIAG generally believes to be relevant to how the three CAMs could be improved:

1. “Over half of investors say they prefer to see more CAMs in an auditor’s report to inform their decisions . . . .”<sup>92</sup>
2. Fifty-one percent of investors say that “increasing detail provided in CAMs” would be beneficial for their investment decisions.<sup>93</sup>

Consistent with those findings, the IAG 2016 Letter, the MIAG May Letter, the basis for the recommendations in the MIAG CAM Memorandum, and the comments received by the nominators of many of the critical or key audit matters summarized in the Appendix, the MIAG believes the three 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).** As described in the Appendix, comments received in support of nearly half of the 26 critical or key audit matters, included language indicating support for this proposed improvement. And as indicated, the IAG 2016 Letter described such information as providing “the greatest value to investors.”<sup>94</sup> Similarly, the recommendations in the MIAG CAM Memorandum describe such information, which is currently permitted in paragraph .14(c) of AS 3101, as “of most interest to investors.”
2. **The number of CAMs disclosed should be increased.** Berkshire and Moderna both had more CAMs than the “1.5” CAMs per audit report average discussed at the IAG CAM Briefing. However, as explained by Ciesielski in his submission in support of the Berkshire CAMs:

On the negative side: there were only three critical audit matters. For a company of the size and sweep of Berkshire Hathaway, one would have expected many

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<sup>88</sup> See PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”); Critical Audit Matters Survey, Research Findings | Q3 Survey, CAQ (July 2024), <https://www.thecaq.org/critical-audit-matters-survey-research-findings-q3-survey>.

<sup>89</sup> See Critical Audit Matters Survey, Research Findings | Q3 Survey, CAQ at 4 (“The Q3 survey research was conducted online from July 9 – 22, 2024 among 100 U.S. institutional investors.”); PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jeff Mahoney during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>90</sup> Critical Audit Matters Survey, Research Findings | Q3 Survey, CAQ at 6.

<sup>91</sup> *Id.* at 9.

<sup>92</sup> *Id.* at 10.

<sup>93</sup> *Id.* at 12.

<sup>94</sup> Letter from Mary M. Bersot, CFA, CEO and Chief Investment Officer, Bersot Capital Mgmt. LLC to Off. Secretary, PCAOB at 1.

more. Practically every corner of U.S. business has a Berkshire Hathaway presence in it. For instance, Berkshire Hathaway’s energy subsidiaries comprise about 14% of total assets at year end, and are on a par with other utilities whose auditors disclose CAMs, yet there are none noted by the B-H auditors. The same is true for manufacturing, another 13% of total year-end assets. The list could go on, but the point should be clear by now.<sup>95</sup>

Similarly, in his submission in support of the Moderna CAMs, Ciesielski expressed disappointment with the number of CAMs stating:

Moderna’s auditors had only two critical audit matters addressed in their report – in line with U.S. company averages, in my estimation. While they addressed critical issues that an investor might expect, they didn’t address everything. For instance, the company’s research & development (R&D) expense was 73% of revenues. While this is a startling proportion, it is partially due to the 64% decline in revenues – but the absolute R&D expense still rose 47%. Is auditing such a large number really that simple – is there no judgment involved as to what constitutes valid R&D expense? It would seem to be a candidate for being a critical audit matter.<sup>96</sup>

Ciesielski’s frustration with the number of Berkshire and Moderna CAMs aligns with the MIAG’s views expressed in the MIAG May Letter and the MIAG CAM Memorandum.

## Conclusion

As indicated, the objective of the first annual IAG most decision-useful critical or key audit matters for 2023 is to encourage auditors to voluntarily improve the quality of information communicated to investors in the audit opinions of public companies. 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 CAMs for 2023. Looking ahead to the new year, we currently plan to seek nominations for “The Second Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2024” in Spring 2025. And we are optimistic that the 2025 nominations will demonstrate that our objective to improve the quality of information communicated to investors in the audit opinions of public companies is being achieved.

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<sup>95</sup> E-mail from Jack Ciesielski, CPA, CFA, to Jeff Mahoney, Gen. Couns., CII (June 17, 2024, 4:17 PM EST) (on file with MIAG); *see* PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”).

<sup>96</sup> E-mail from Jack Ciesielski, CPA, CFA, to Jeff Mahoney, Gen. Couns., CII (June 17, 2024, 4:17 PM EST) (on file with MIAG); *see* PCAOB IAG Meeting (Sept. 26, 2024, Part 1 of 2) (comments of Jack Ciesielski during discussion of agenda item: “**IAG Presentation Regarding IAG Request for Critical Audit Matters**”); Soyoung Ho, PCAOB Investor Advisory Group Seeks Public Nominations for Best Critical Audit Matters, Thomson Reuters (“For Moderna . . . Ciesielski pointed out on the absence of research and development (R&D) as a CAM.”).



# Appendix

#	Audit Matter	Category	Registrant	Audit Firm	Nominator(s)	Summary of Nominator Comments
1	<b>Accounting for complex transactions executed to deliver against the wider group strategy - Notes 1, 20, 22, 29 and 30 to the financial statements</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>Anonymous # 1</li> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>Addresses matters of interest to BP's investors</li> </ul>
2	<b>Allowance for Credit Losses - Loans held-for-investment</b>	CAM	Granite Point Mortgage Trust Inc.	EY	<ul style="list-style-type: none"> <li>Zhuoli Axelton, University of Wisconsin – Green Bay</li> <li>Jeffrey Gramlich, Washington State University</li> <li>Brando Szerwo, University of Buffalo</li> </ul>	<ul style="list-style-type: none"> <li>Communicates audit work performed in response to the identified CAM</li> <li>Provides CAM-disclosed audit procedures that research indicates that investors use when evaluating a company's financial reporting disclosures</li> <li>See Insights from Auditors' Disclosures of How They Addressed Critical Audit Matters with Brandon Szerwo (Sept. 26, 2024), <i>available at</i> <a href="https://www.buzzsprout.com/202904/episodes/15822428-insights-from-auditors-disclosures-of-how-they-addressed-critical-audit-matters-with-brando-szerwo">https://www.buzzsprout.com/202904/episodes/15822428-insights-from-auditors-disclosures-of-how-they-addressed-critical-audit-matters-with-brando-szerwo</a></li> </ul>
3	<b>Carrying value of goodwill (Group)</b>	KAM	Rentokil Initial plc	PwC	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides more context tying financial statements to the audit matter than the company's U.S. filing</li> <li>Provides more assessments of estimates than the company's U.S. filing</li> </ul>
4	<b>Decommissioning provisions – Notes 1 and 23</b>	CAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>Nicole Lee, Director of ESG Research &amp; Brandon Galeano, Senior Research Associate, Miller/Howard Investments Inc.</li> </ul>	<ul style="list-style-type: none"> <li>Provides transparency in challenging and evaluating management's judgments on decommissioning provisions that enhance investor confidence in the audit and financial statements</li> <li>Provides decision-useful information about decommissioning provisions not always found in other auditor CAMs</li> <li>The corresponding KAM offers deeper insights into audit procedures and conclusions, enhancing transparency</li> <li>Provides information about a complex issue—climate impact on decommissioning—that provides stakeholders with essential insights for informed decision making</li> </ul>

5	<b>Decommissioning provisions - Note 1 and 23</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>• Anonymous # 1</li> <li>• Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>• Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>• Addresses matters of interest to BP's investors</li> <li>• Includes information omitted from U.S. CAMs about exposure to decommissioning liabilities reverting to the company</li> </ul>
6	<b>Estimation of oil and gas reserves</b>	KAM	Shell plc	EY	<ul style="list-style-type: none"> <li>• Mekedas Belayneh, Policy Advocate, Public Citizen's Climate Program, Public Citizen</li> </ul>	<ul style="list-style-type: none"> <li>• Provides investors with accurate insight into the rapidly changing environment in which the company operates</li> <li>• Gives investors vital insight into the challenges surrounding climate-related estimates and assumptions within financial statements, especially those that require significant auditor judgment and testing of management's assumptions to assess the reliability and accuracy of information</li> </ul>
7	<b>Evaluation of hydrocarbon reserves, measurement of mineral assets and of other financial statement line items related thereto, also considering the impacts of the energy transition and climate changes</b>	KAM	Eni	PwC	<ul style="list-style-type: none"> <li>• Nicole Lee, Director of ESG Research &amp; Brandon Galeano, Senior Research Associate, Miller/Howard Investments Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides detailed insights into the procedures undertaken to assess the operating effectiveness of relevant controls implemented by management in this area</li> <li>• Provides more comprehensive coverage compared to US companies' audit reports with reserve CAMs, the absence of a key observations section – to go beyond procedural descriptions to highlights findings – limits transparency and accountability</li> </ul>
8	<b>Fraud risk in revenue recognition (revenues of £3,674 million, 2022 £3,841 million)</b>	KAM	Pearson plc	EY	<ul style="list-style-type: none"> <li>• Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>• Highlights removal of a risk area included in the prior year v. no fraud risk in revenue recognition CAM in 20-F</li> </ul>
9	<b>Goodwill and Indefinite-Lived Intangible Assets — Refer to Notes 1 and 13 to the financial statements</b>	CAM	Berkshire Hathaway Inc.	Deloitte	<ul style="list-style-type: none"> <li>• Jack Ciesielski, CPA, CFA, R.G. Associates, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• An investor in Berkshire Hathaway stock would be aware of the problems Berkshire Hathaway has had with the acquisition of Precision Castparts Corp. and would naturally be concerned about the recoverability of the investment</li> <li>• Deloitte identified the issue and clearly explained their significance and the judgment involved in auditing it</li> <li>• The auditors also explained the testing of the accounts involved in a way that was extensive, and more than simple boilerplate</li> </ul>

10	<b>The impact of climate change and the energy transition on the Consolidated Financial Statements</b>	KAM	Shell plc	EY	<ul style="list-style-type: none"> <li>Mekedas Belayneh, Policy Advocate, Public Citizen's Climate Program, Public Citizen</li> </ul>	<ul style="list-style-type: none"> <li>Investors are often unaware of the impact of climate change and the energy transition on the financial statements they rely on to make key decisions</li> <li>Disclosure is imperative to provide investors with accurate insight into the rapidly changing environment in which companies operate</li> <li>Gives investors vital insight into the challenges surrounding climate-related estimates and assumptions within financial statements, especially those that require significant auditor judgment and testing of management's assumptions to assess the reliability and accuracy of information</li> </ul>
11	<b>Impact of Rate Regulation on the Financial Statements – Refer to Note 1 (Summary of Significant Accounting Policies – Regulatory Assets and Liabilities) and Note 2 (Regulatory Matters) to the financial statements</b>	CAM	The Southern Company	Deloitte	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides information about uncertainty re government subsidies, regulation of rates charged to customers</li> </ul>
12	<b>Impairment of Goodwill – Golf Reporting Unit – Refer to Note 11 to the financial statements</b>	CAM	Vista Outdoors Inc.	Deloitte	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Information on impairment testing is more specific than for other companies</li> </ul>
13	<b>Impairment of Indefinite-Lived Trade Name – Fox Racing – Refer to Note 11 to the financial statements</b>	CAM	Vista Outdoors Inc.	Deloitte	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Information on impairment testing is more specific than for other companies</li> </ul>
14	<b>Impairment of Property, plant, and equipment (PP&amp;E) and Joint ventures and associates (JVA)</b>	KAM	Shell plc	EY	<ul style="list-style-type: none"> <li>Nicole Lee, Director of ESG Research &amp; Brandon Galeano, Senior Research Associate, Miller/Howard Investments Inc.</li> <li>Mekedas Belayneh, Policy Advocate, Public Citizen's Climate Program, Public Citizen</li> </ul>	<ul style="list-style-type: none"> <li>Emphasizes risks associated with forecast-based estimates that are crucial to the audit</li> <li>Demonstrates heightened professional skepticism when evaluating Shell's assumptions regarding oil and gas prices, petrochemical and refining margins, reserves, and weighted average cost of capital</li> <li>Outlines additional procedures undertaken to assess impacts on specific company items and with reference to critical sources</li> <li>Detailed reporting moves beyond identifying standard processes to describing tailored considerations and offering concrete conclusions regarding the results of procedures, adding a layer of confidence and transparency for investors</li> <li>Investors are often unaware of the impact of climate change and the energy transition on the financial statements they rely on to make key decisions</li> <li>Disclosure is imperative to provide investors with accurate insight into the rapidly changing environment in which companies operate</li> <li>EY's Key Observations section enabled investors to understand how it concluded that there was no risk of material misstatement.</li> </ul>

15	<b>Impairment of upstream oil and gas property, plant and equipment (PP&amp;E) assets – Notes 1, 4 and 12 to the financial statements</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>• Anonymous # 1</li> <li>• Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>• Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>• Addresses matters that are of interest to BP's investors</li> <li>• Provides more information on climate risk versus the U.S. CAM</li> </ul>
16	<b>Management override of controls</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>• Anonymous # 1</li> <li>• Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>• Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>• Addresses matters of interest to BP's investors</li> <li>• Provides information on fraud risk from management override of controls not included in the U.S. CAM</li> </ul>
17	<b>Potential impact of climate change and the energy transition (impacting PP&amp;E, goodwill, intangible assets, investments in joint ventures and provisions) – Notes 1, 4, 12, 14, 15, 16 and 33</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>• Anonymous # 1</li> <li>• Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>• Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>• Addresses matters of interest to BP's investors</li> </ul>
18	<b>Raw Material Inventory Write-downs</b>	CAM	Moderna, Inc	EY	<ul style="list-style-type: none"> <li>• Jack Ciesielski, CPA, CFA, R.G. Associates, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides information about an issue that was troubling for investors of all stripes last year, and that should have had an impact on the auditor's plans for gathering sufficient, competent evidence that the financial statements were fairly stated</li> <li>• Explains clearly the subjectivity involved in the estimates</li> <li>• Explains their testing of the accounts involved in a way that was extensive, and much more than mere boilerplate</li> </ul>
19	<b>Reserves for returns on product revenue</b>	CAM	Moderna, Inc	EY	<ul style="list-style-type: none"> <li>• Jack Ciesielski, CPA, CFA, R.G. Associates, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides information about an issue that was troubling for investors of all stripes last year, and that should have had an impact on the auditor's plans for gathering sufficient, competent evidence that the financial statements were fairly stated</li> <li>• Explains clearly the subjectivity involved in the estimates</li> <li>• Explains their testing of the accounts involved in a way that was extensive, and much more than mere boilerplate</li> </ul>

20	<b>Uncertain tax position for EU State Aid case (£63 million, 2022 £63 million) Uncertain Tax Positions</b>	KAM	Pearson plc	EY	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Gives range of outcomes not included in U.S. CAM</li> </ul>
21	<b>Unpaid Losses and Loss Adjustment Expenses — Refer to Notes 1 and 16 to the financial statements</b>	CAM	Berkshire Hathaway Inc.	Deloitte	<ul style="list-style-type: none"> <li>Jack Ciesielski, CPA, CFA, R.G. Associates, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>Recognizes obvious issue of a larger insurer</li> <li>An investor in the insurance sector would surely be concerned with the quality of the estimates involved in those liability accounts, and it is reassuring that the auditor (Deloitte) did not sidestep the issue</li> <li>Identifies the issue and clearly explains the significance and the judgment involved in auditing the matter</li> <li>Explains the testing of the involved accounts in a way that was extensive, and more than simple boilerplate</li> </ul>
22	<b>Unpaid Losses and Loss Adjustment Expenses — Retroactive Reinsurance Contracts — Refer to Notes 1 and 17 to the financial statements</b>	CAM	Berkshire Hathaway Inc.	Deloitte	<ul style="list-style-type: none"> <li>Jack Ciesielski, CPA, CFA, R.G. Associates, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>An investor in the insurance sector would surely be concerned with the quality of the estimates involved in those liability accounts, and it is reassuring that the auditor (Deloitte) did not sidestep the issue</li> <li>Identifies the issue and clearly explains the significance and the judgment involved in auditing the matter</li> <li>Explains the testing of the involved accounts in a way that was extensive, and more than simple boilerplate</li> </ul>
23	<b>Valuation of acquired intangible assets (£117 million, 2022 £110 million)</b>	KAM	Pearson plc	EY	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides more information than the minimal amount included in the U.S. CAM</li> </ul>
24	<b>Valuation of commodity financial derivatives, where fraud risks may arise in revenue recognition - Notes 1, 29 and 30 to the financial statements</b>	KAM	BP p.l.c.	Deloitte	<ul style="list-style-type: none"> <li>Anonymous # 1</li> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides detailed and quite specific information on the key audit matter, how they responded in their audit, and (unlike U.S. CAMs) their key conclusions and other observations</li> <li>Addresses matters of interest to BP's investors</li> <li>Includes Key Observations not included in the U.S. CAM</li> </ul>
25	<b>Valuation of termite damage claims provision (Group)</b>	KAM	Rentokil Initial plc	PwC	<ul style="list-style-type: none"> <li>Anonymous # 2</li> </ul>	<ul style="list-style-type: none"> <li>Provides more context tying to financial statements than the company's U.S. CAM filing, and more about estimates assessed</li> </ul>

26	<b>Valuation of trademarks with indefinite lives and goodwill</b>	CAM	The Coca-Cola Company	EY	<ul style="list-style-type: none"> <li>• Robert J Lynch, Arlington VA</li> </ul>	<ul style="list-style-type: none"> <li>• Discloses critical information regarding Goodwill, Trademarks and Other Intangible Assets not identified or described by management in Note 1 to the audited financial statements</li> <li>• Disclosure is a more useful presentation than Note 1 to the audited financial statements because it identifies the Trademarks with indefinite lives and goodwill were \$14.3 billion and \$18 billion, respectively</li> <li>• Adds an extra layer of trust in the financial reporting process</li> </ul>
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