

Critical Audit Matters (CAM) from the investor perspective: A cost/benefit analysis

Abstract

PCAOB's new auditing standard, AS 3101, requires audit firms to report critical audit matters (CAMs) in the auditor's report. CAMs involve areas of an audit that require subjective or complex judgement related to material accounts and disclosures. The initial purpose of reporting CAMs was to provide transparency to potential investors; however, debate remains as to the whether this new requirement adds value. The benefit of the perceived transparency and communication to investors needs to outweigh the potential liability risk that comes with providing additional verbiage in the auditor's report. Thus, the purpose of this study is to utilize stakeholder surveys to measure value and transparency for potential investors against the potential increase in costs and liability.