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June 15, 2020

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via Email to comments@pcaobus.org

Re: Interim Analysis No. 2020-01, *Critical Audit Matter Requirements*

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) Interim Analysis No. 2020-01, *Critical Audit Matter Requirements*. We appreciate the PCAOB's efforts throughout the process of implementing the critical audit matter (CAM) requirements and believe that the PCAOB's timely guidance contributed to the successful implementation of such requirements. We commend the PCAOB for seeking feedback from a variety of stakeholders. Not only will such feedback enable the PCAOB's Office of Economic and Risk Analysis to make meaningful observations about how the CAM requirements have impacted the audit process, but the overall process can provide a framework for making future standard-setting activities more effective.

We respectfully submit, for the PCAOB's consideration, our responses to the questions posed to auditors in the Interim Analysis.

Responses to request for comment

Question 6: Have auditors or preparers experienced any changes in a specific audit because of CAM requirements? For example, were there changes to the nature, timing, or extent of audit procedures performed on matters identified as CAMs, not because of changes in circumstances but because of CAM requirements?

Generally, the implementation of a new auditing standard will impact every audit engagement to which the requirements apply. Nevertheless, we did not note significant changes to the nature, timing, or extent of audit procedures as a result of implementing the CAM requirements. Instead, our experience was that the requirements mainly impacted engagement planning and reporting. For example, incremental audit effort was incurred in discussions among the engagement team and documentation of the engagement team's CAM conclusions. Expanded procedures and related documentation included team considerations related to those matters ultimately determined to be CAMs and certain matters considered for potential CAM disclosure. Incremental effort was also required in drafting the CAMs section in the auditor's reports. In addition, engagement teams incurred more time in having discussions with management and audit committees, which is described in our response to the next question below.

Question 7: Did CAM requirements lead to changes in communications between auditors, audit committees, or preparers? For instance, were there changes in the nature or frequency of communications during the audit process? Did audit committee members ask more or different types of questions? Was there more focus on matters that were identified as CAMs?

We believe that communications were generally enhanced as a result of the CAM requirements. Beginning early in the year of implementation, auditors focused on educating management and audit committees on the CAM requirements, providing insights on how the engagement team was applying the requirements to the specific audit engagement, and discussing the CAM reporting language. However, we do not believe that the fact that an audit matter may be a CAM changed the questions or approach related to engagement teams' interactions on those matters. Further, we did not identify significant changes in the frequency of communications with audit committees; engagement teams instead leveraged existing meeting frequency. In fact, early in the process, some stakeholders voiced concern that the CAM requirements could unintentionally reduce communications with audit committees. We are pleased to report that this generally did not materialize with our clients.

Question 8: Based on your experience as a preparer or auditor, what were the most significant activities that led to CAM-related costs? First, please describe each activity, including any preparatory activities (e.g., pilots or dry-runs). Next, please estimate the total costs related to CAM requirements in hours (and external spend, if applicable) for each of those activities for each calendar year from 2017-2019 and the period January-April 2020, distinguishing, to the extent possible, between costs related to preparatory activities and costs related to recurring activities. Finally, for any activities that will be recurring, state whether you believe the costs will increase, decrease, or not change for each activity in future years.

Our national office undertook a variety of activities, starting in 2018, to prepare for the implementation of the CAM requirements. Such activities included, but were not limited to, the following:

- Development of the firm's pilot program and "practice runs" for large accelerated filer engagements
- Development of firm policies, guidance, tools, and templates

- Establishment of CAM quality review processes in the year of implementation and for ongoing monitoring
- Development and delivery of training related to CAMs

The most significant activities included the development of firm policies and guidance and the development and delivery of training (both formal in-person and webcast trainings as well as more informal education and discussions with engagement teams). We conducted pilot activities during the summer of 2018 and directed engagement teams of large accelerated filers to perform “practice runs” for 2018 calendar-year audits. The time investment in organizing and overseeing those dry-run activities was also substantial. We provided detailed hours and cost information in our participation in other recent PCAOB outreach efforts.

From an individual engagement team perspective, increased hours and cost were incurred at each stage of the CAM implementation process – determination, communication, and documentation. As discussed above, there were enhanced communications between auditors and audit committees and management. Engagement teams invested a considerable amount of time in brainstorming CAM topics, gathering the population from which CAMs are selected, evaluating each matter, and documenting the consideration of the factors required by the standard and the ultimate CAM conclusion. Engagement teams also incurred time, as necessary, discussing the proposed CAM reporting with specialists or individuals with specialized skills and knowledge when an identified CAM included procedures performed by such individuals.

The initial drafting of CAMs resulted in an increased investment of time by engagement teams. We believe the most significant impact that CAMs had on engagement metrics was that the more senior members of the engagement team incurred time related to these activities. In our view, this was not an area that could be delegated to more junior members of the engagement team due to the auditor judgment and experience needed in evaluating the matters for disclosure in the auditor’s report.

We anticipate that the national office will incur recurring costs to enhance and supplement our methodology and guidance as the application of the requirements continues to evolve and we gather more information from our internal and external inspection processes. We also expect to incur time and cost related to ongoing monitoring efforts and other efforts we deem necessary in order to maintain the specificity and appropriate tailoring of CAMs to the related period. In addition, we expect engagement-level costs to recur annually since CAMs are determined based on the current period under audit. As such, time spent on CAM determination, communication, and documentation is expected to remain fairly consistent in the years following implementation.

Question 9: From your perspective as an auditor or preparer, at which stages of the audit process did most of your activities related to CAMs occur? Did the majority of your effort occur before or after the company’s fiscal year end? What factors contributed to the timing of your efforts related to CAMs?

The majority of engagement team activities related to CAMs occurred prior to the company's fiscal year-end. We created a timeline of milestones for engagement teams to use in order to enhance communications with preparers and audit committees regarding the new requirements. This timeline also drove engagement teams to undertake CAM procedures during companies' second and third fiscal quarters. This enabled engagement teams to focus on finalizing CAMs during final fieldwork. The most significant factor that affected the timing is that we began the conversations and education about this significant change in reporting early on, enabling robust discussions between engagement teams, management, and audit committees throughout the audit period. We believe this was effective in mitigating the risk of "surprises" for companies closer to their filing deadlines.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox, National Managing Partner of Professional Standards, at (312) 602-9080 or Bert.Fox@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP