KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

June 9, 2022

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Interim Analysis No. 2022-001, *Estimates and Specialists Audit Requirements*

Dear Office of the Secretary:

KPMG LLP is focused on delivering audit quality to support the capital markets and meet the expectations of investors and regulators. We believe the Public Company Accounting Oversight Board's (PCAOB or the Board) mission and actions, including standard setting activities, have enhanced audit quality since the PCAOB's inception, and we are committed to constructively and positively contributing to the Board's mission of protecting investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports. We believe that conducting timely analyses of the overall effect of new auditing requirements on key stakeholders in the audit process is an important element of fulfilling that mission.

In this respect, we appreciate the opportunity to provide responses to the PCAOB's Interim Analysis No. 2022-001: Request for Comment, Post-Implementation Review, Interim Analysis of Estimates and Specialists Audit Requirements (Request for Comment). The audit requirements relate to the standard for auditing accounting estimates, including fair value measurements (final standard) and amendments to auditing standards for using the work of specialists (final amendments) which were adopted by the PCAOB in 2018 and approved by the Securities and Exchange Commission in 2019. We thank the Board and PCAOB staff (the Staff) for their efforts to assist audit firms in implementing the new audit requirements, including through published guidance and Staff presentations, and look forward to continuing to engage with the Board to enhance audit quality.

Overview

The Staff has requested public comment on the initial impact of the final standard and final amendments as an input into the PCAOB's consideration of whether additional guidance or other steps may be appropriate.

Overall, we believe that the final standard and final amendments have resulted in improvements to audit quality by, among other impacts, providing a more clearly articulated risk-based approach to auditing accounting estimates, prompting auditors to devote greater attention to addressing the risk of management bias in accounting estimates, providing tailored requirements for addressing certain matters unique to auditing fair values of financial instruments, and setting out requirements for better integration of the work of specialists into the audit process.

The remainder of this letter provides our responses to the specific questions contained in the Request for Comment. We previously provided information with respect to our implementation of the final standard and final amendments to the Staff under separate cover in response to previous data requests from the Staff. This information included the most significant activities we undertook to support and monitor the implementation, changes in our auditing practice and the associated implications for audit and financial reporting quality, the level of effort and cost involved, and significant challenges encountered. Our responses included in each appendix supplement the information previously provided to the Staff without repeating the specific details.

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We appreciate the Board's consideration of our comments in support of enhancing auditing standards and audit quality. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Christian Peo at cpeo@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix A – Responses to specific questions for auditors regarding requirements for auditing accounting estimates, including fair value measurements

1. How did audit firms approach implementation of the new requirements for auditing accounting estimates, including fair value measurements? What were the most significant activities the firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

Since our response to the previous data requests, we have continued to monitor implementation of the final standard and enhance methodology, tools, and guidance related to the auditing of accounting estimates. These activities have been incremental in nature but are not significantly different from the previously provided information.

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

The impacts of the requirements for accounting estimates vary based on the specifics of each audit engagement, including its industry, and the complexity of particular accounting estimates. However, the final standard has positively affected audit quality.

3. To what extent did the new requirements have implications for communication and dialog between auditors, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

The final standard did not make substantive changes to the required communications between auditors and audit committees. We have not conducted a comprehensive analysis of the impacts of the requirements on communications and dialog between auditors, audit committees, and preparers, but anecdotal evidence suggests that the final standard may have facilitated more granular discussions about certain accounting estimates, including critical accounting estimates, by focusing those discussions on elements of the estimates (i.e. methods, assumptions, and data) that more significantly contributed to the assessed risks of material misstatement. In addition, in the year of adoption of the final standard, our audit plan presentations to audit committees included an overview of the final standard to facilitate discussion of its impact on the audit process.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/efficiencies will increase, decrease, or not change in future years.

A significant portion of the overall costs incurred to-date related to various non-recurring activities, such as updates to our methodology and guidance to reflect the requirements of the final standard, and initial training of our professionals. We expect to continue to incur hours and costs related to certain recurring activities, such as evaluating and updating our tools, methodology, and guidance on an ongoing basis, as we continue to obtain insights and knowledge from our own experience related to the implementation of the final standard as well as insights from the Board through its activities, such as its interim analysis, with respect to implementation of the final standard.

At the individual engagement level, more robust risk assessment procedures have been performed to understand the differing risks presented by the components of estimates in the issuer's financial statements and their elements. Following the initial implementation of the final standard, engagement teams may begin to realize certain efficiencies if there are not significant changes in the issuer's estimation methodology going forward.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g. new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort? What other costs, if any, did companies experience directly related to the new requirements?

The extent of changes in the audit effort and fees correlates to the complexity of the estimates present in the issuer's financial statements and other contemporaneous environmental factors, such as the significance to the issuer of the requirements of new accounting requirements being adopted concurrently with implementation of the final standard (e.g. accounting standard update related to the allowance for credit losses).

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

While we have not encountered significant challenges in implementing the final standard, matters that might benefit from additional post-implementation guidance or continued dialog with the PCAOB include:

- Scalability of the new requirements for certain less complex estimates with low measurement uncertainty (e.g. depreciation expense and fair value of exchange traded securities);
- Application of the new requirements for testing or evaluating management's methods, assumptions, and data to decisions (or judgments) made by management about recognition events that do not involve quantitative measurements, such as qualitative assessments in a goodwill impairment evaluation, assessment of triggering events in a long-lived asset impairment analysis, or more-likely-than-not assessments involved in the recognition of benefits from uncertain tax positions; and
- Application of the requirement to evaluate whether the data is appropriately used and significant assumptions are appropriately applied as part of the method, including expectation to test the mathematical accuracy of the calculations under the method,[1] to large and complex models used to determine certain accounting estimates, including in situations where these models are considered proprietary by the issuer's specialists.

7. Did the new requirements give rise to any unintended consequences? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

We have not encountered any unintended consequences from the implementation of the final standard.

[1] See PCAOB Release No. 2018-005, *Auditing Accounting Estimates, Including Fair Value Measurements and Amendments to PCAOB Auditing Standards*, page A3-13.

Appendix B – Responses to specific questions for auditors regarding requirements for auditors' use of the work of specialists

1. How did audit firms approach implementation of the new requirements for the auditor's use of the work of specialists? What were the most significant activities that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

Since our response to the previous data requests, we have continued to monitor implementation of the final amendments and enhance methodology, tools, and guidance related to the work of specialists. These activities have been incremental in nature but are not significantly different from the previously provided information.

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

The impacts of the requirements for using the work of specialists vary based on the specifics of each audit engagement, including its industry, and complexity of the subject matter of the specialist's involvement. However, we believe the final amendments have positively affected audit quality.

3. To what extent did the new requirements have implications for communication and dialog between auditors, specialist, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

The final amendments did not make changes to the required communications between auditors and audit committees and we are not aware of significant impacts of the new requirements for using the work of specialists on communication and dialog between auditors, audit committees, and prepares. In the year of adoption of the final amendments, our audit plan presentations to audit committees included an overview of the final amendments to facilitate discussion of their impact on the audit process.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/efficiencies will increase, decrease, or not change in future years.

A significant portion of the overall costs incurred to-date related to various non-recurring activities, such as updates to our methodology and guidance to reflect the requirements of the final amendments, and initial training of our people. Nevertheless, we expect that, in the near term, we will continue to incur hours and costs related to certain recurring activities, such as evaluating and updating our tools, methodology, and guidance on an ongoing basis, as we continue to obtain insights and knowledge from our own experience related to the implementation of the final amendments as well as insights from the Board through its activities, such as its interim analysis, with respect to implementation of the final amendments.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g. new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort or use of the work of specialists? What other costs, if any, did companies experience directly related to the new requirements?

Incremental fees related to the implementation of the final amendments, if any, depended on the complexity of the issuer's financial reporting, including the need for application of specialized skills and knowledge, which may vary depending on the issuer's size, industry, and other environmental factors.

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

We have encountered no significant challenges in implementing the final amendments.

7. Did the new requirements give rise to any unintended consequences? For example, have the new requirements limited the ability of smaller firms to compete in the audit services market and, if so, why? Do the new requirements divert auditor attention from other important audit tasks that warrant greater attention? Have the new requirements affected how companies use specialists in preparing financial statements? Please describe any unintended consequences and, if applicable, reference specific requirements that caused them.

We have not encountered any unintended consequences from the implementation of the final amendments. We have also not observed any significant impacts of the new requirements on how companies use specialists in preparing financial statements.

8. Have audit firms or preparers encountered any shortages or strains on the pool of qualified specialists? If so, what factors have contributed to such shortages or strains?

We have not encountered any shortages of qualified specialists that would be attributable to implementation of the final amendments. Certain contemporaneous factors may have strained the pool of qualified specialists. For example, implementation of the final amendments coincided with the onset of the COVID-19 pandemic which created increased demand for certain specialized skills and knowledge, such as valuation, in financial reporting due to the impacts of the pandemic on, among others, valuation of issuers' long-lived assets and recoverability of goodwill.