June 15, 2020

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

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

Dear Ms. Brown:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") Request for Comment, *Interim Analysis of Critical Audit Matter Requirements* (collectively the "Request for Comment" or "PCAOB interim analysis").

We provided feedback to the PCAOB at all stages of consultation throughout the six-year development process of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* ("AS 3101" or "the final standard"). Our August 2017 comment letter to the Securities and Exchange Committee highlighted the importance of continued dialogue and feedback with stakeholders to monitor whether the PCAOB's standard setting has achieved its intended objectives and to identify further actions that may be necessary or appropriate. Such stakeholder engagement allows the PCAOB and others, as necessary, to make mid-course adjustments and longer-term continued improvements to the auditor's report, in particular as corporate reporting continues to evolve.

We support the PCAOB's initiatives to obtain feedback from a wide range of stakeholders. We look forward to understanding investor perspectives on critical audit matters (CAMs) as to our knowledge, there has not been a significant amount of discussions on the impact of CAMs on investor decision-making. We encourage the PCAOB to supplement this interim analysis with a formal post-implementation review, in particular to highlight feedback on how CAMs are being used and consider whether the potential unintended consequences raised during the rulemaking process have been noted in practice. Academic research may also be helpful in this regard.

We continue to liaise with the PCAOB on its detailed CAM-related requests that complement the Request for Comment. Included in these activities is a survey of our engagement partners who have had experience with communicating CAMs. We have also provided additional information to the PCAOB in the context of its inspection program and other outreach to explain our processes to develop our firm methodology and tools, engage with our clients, and prepare and train our practice for implementation, and the estimated costs of doing so. Accordingly, this letter is intended to provide a high-level summary of our implementation experiences to date.

Our experiences with management and audit committees

Since AS 3101 was issued, we have invested significantly in building our firm methodology (including policies, guidance, and tools) to support the communication of CAMs in our audit report, leveraging the robust two-way dialogue that exists with audit committees today.

CAMs are based on matters that were communicated or required to be communicated to the audit committee. AS 1301 requires communication of a number of matters, including critical accounting estimates, significant accounting policies, significant unusual transactions, and other matters that might involve especially challenging, subjective, or complex auditor judgment. As not all of these matters might be CAMs for an individual engagement, we found there was a level of education and awareness that needed to occur with management and audit committees in order to prepare for our first audit reports that would include CAMs. In addition, we received questions of how comparable or consistent CAMs might be across companies within the same industry and whether there were matters that were always going to be presumed to be CAMs in certain industries. Certain clients and their audit committees (in particular foreign private issuers) were familiar with the IAASB's concept of key audit matters (KAMs), and were curious as to the similarities and differences between the PCAOB's and IAASB's frameworks for communicating matters about the audit.

Accordingly, a key element of our implementation efforts was the performance of "dry runs." In the year prior to implementation, our engagement teams working with large accelerated filers were asked to identify and draft CAMs for the purpose of engaging with management and the audit committee in the context of that year's audit. This investment of time and resources by over 400 engagement teams provided a preview of what would have been communicated in the audit report in that particular year, specific to the facts and circumstances of each engagement. By highlighting the nature of matters that could potentially be CAMs for a certain engagement and how we might describe them in our audit report, we were able to alleviate some concerns expressed during the rulemaking process about auditors providing "original information" about certain matters. We were also able to explore how best to incorporate the CAM discussions into other communications throughout the audit, so as to help avoid surprises or negative impacts on clients' financial reporting processes.

As a result of our experience with dry runs, we made refinements to our methodology, which focused on the following key elements as a means of achieving successful implementation of the new communication requirements:

- Early engagement with management and the audit committee about what matters could potentially be CAMs. Teams were encouraged to begin CAM discussions in the planning phase of the audit, building upon other important discussions about risk assessment, scoping, and how we planned to use individuals with specialized skill and knowledge in the audit. They shared perspectives on those matters that could potentially rise to the level of a CAM, including significant risks and critical accounting estimates.
- Integration of CAM discussions throughout the audit. Communication about CAMs throughout the audit provided the opportunity for management and the audit committee to understand the basis for our decisions in relation to CAMs and how these matters were ultimately described in the audit report. As new issues arose during the audit period (such as significant unusual transactions, impairment considerations, the identification of material weaknesses, and other audit-specific factors), teams explained why the auditing of those matters might involve especially challenging, subjective, or complex auditor judgment (in particular, when there were changes to the audit effort).
- Allowing sufficient time for management, the audit committee, and others to understand how we planned to describe the CAMs in our audit report. For a majority of our audit teams, most of

the efforts related to CAMs occurred before the company's fiscal year end. For example, most teams shared draft CAMs during interim periods.

- Review by national office personnel. Before draft CAMs could be shared with the audit committee, teams were required to undertake a consultation with national office personnel, which included discussion of the rationale for identification of the CAMs and submission of drafted CAMs. This process was designed to promote consistency in the application of the firm's methodology, in particular when drafting CAMs, and allow for real-time sharing of learnings and additional oversight of the implementation in the first year. These reviews complemented the required involvement of the engagement partner and engagement quality control reviewer in the context of the specific engagement, as well as the firm's training to educate the practice about the standard and our firm methodology.

The CAM communication focuses on summarizing those elements of our audit work that were most responsive to the reasons why a matter was a CAM, but is not intended to describe in detail all the work we have performed. We do not believe engagement teams found it necessary to change the nature, timing, and extent of audit procedures performed on matters identified as CAMs solely because of the CAM requirements.

Across the PwC network, we also developed frequently asked questions and conducted training to assist teams working with dual filers who were subject to both CAM and KAM reporting in understanding the similarities and differences between the two standards as they prepared their audit reports. This may be an area where the PCAOB could continue to remind stakeholders of the reasons for potential differences to ensure there is a consistent understanding.

Impact on company financial reporting processes

We observed that companies set up processes to understand and review our draft CAMs, which in some cases included internal and external counsel and others (such as investor relations). In many cases, the discussion of draft CAMs was an extension of expected discussions during our audit related to those matters. As CAMs are the auditor's responsibility, we did not observe significant changes in controls or practices around financial reporting and disclosure.

Because of the possibility that CAMs might attract incremental attention to the company's disclosures, some audit committees were particularly interested in the relationship between the company's disclosures related to those matters we had identified as CAMs and how we intended to describe the CAMs in our audit report. As an example, we have seen a high correlation between CAMs and critical accounting estimates described in a company's MD&A. Our firm's approach to CAMs aims to leverage what management communicated about the matter from an accounting and disclosure perspective, complementing that discussion when describing the circumstances that led the auditing of the matter to be a CAM. In describing the CAM in our audit report, we might highlight certain significant assumptions that were more subjective (e.g., forward-looking assumptions with greater uncertainty) or provide more granularity about the different reporting units that were considered in evaluating impairment in order to illustrate why the auditing of a critical accounting estimate involved challenging, subjective, or complex auditor judgment. Accordingly, after having an opportunity to review our draft CAMs, in some cases management and the audit committee revisited their disclosures related to matters that were determined to be CAMs and how they were describing the significant management judgments.

Conclusion

As many other clients will be subject to CAM reporting in 2020, we continue to take action to support the effective implementation of CAMs. We are reflecting on our experience with large accelerated filers and considering whether to refine any elements of our methodology with the goal of enabling teams to be in a position to share draft CAMs with their clients in connection with their third quarter interim reviews.

The Request for Comment notes the PCAOB expects to produce a report in the fourth quarter of 2020 to communicate findings and provide early insights into initial CAM implementation. We would welcome the opportunity to engage with the PCAOB and its staff, in particular if the PCAOB plans to develop additional guidance for auditors, so that we can ensure our teams are able to effectively incorporate this guidance into their approach.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Brian T. Croteau at (973) 236-5000 regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

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