Statement of
Jeffrey L. Burgess
Grant Thornton LLP

Public Meeting on the Auditor's Reporting Model of the
Public Company Accounting Oversight Board
April 3, 2014

Good afternoon and thank you for the opportunity to provide my comments related to the important topic of auditor reporting. I commend the PCAOB for organizing this roundtable and for its continued outreach. Grant Thornton supports the Board's efforts to enhance the relevance and usefulness of the auditor's report.

My comments today are focused on the applicability of the proposed new rules to investment companies, and in doing so I will also provide some general comments about certain of the key aspects of the proposals — primarily CAMs and other information.

Overall

The application of PCAOB standards should, in most circumstances, be applied uniformly to all issuers. Although we understand the view that investment companies and broker dealers could be scoped out of this proposal, we struggle with trying to define which issuers should be included versus those that would be exempt — where do you draw the line? It is difficult to distinguish the circumstances in which an issuer or group of issuers might merit a discussion of CAMs from those that would not merit such disclosure. Second, certain aspects of the proposals would likely need further evaluation, outreach, and deliberation to be applicable to many investment companies, including consideration of the various fund structures and regulatory reporting constructs, such as multi-fund filings.

Critical Audit Matters

With respect to CAMs, we believe that providing more insight into critical audit matters can give investors and other users of the financial statements information that could be useful in evaluating the underlying financial statements. Grant Thornton's comment letter identifies suggestions for improvement with respect to the proposal's scope, filtering mechanisms and form of communication. Our suggestions are intended to address concerns we have as to how the proposal aligns with current audit processes and documentation protocols.

Concentrating on issuer investment companies, we share what seems to be the general view of many other commenters that the primary focus of CAMs will be the valuation of investment securities. Valuation has been a significant focus of the SEC and investors in recent years, so a CAM related to this complex audit area could be relevant. It has been our experience that audit teams are spending considerable time evaluating the sufficiency of audit evidence related to valuing the more complex level 2 investments as well as the level 3 investments. While we acknowledge that required financial statement disclosures as set forth in ASC 820 combined with additional management disclosures of portfolio risks and other details around investment portfolios provide investors with a significant amount of information, it is possible that auditor commentary for certain matters around a specific investment valuation that might be included in a CAM could be useful.

Most of the challenges related to reporting CAMs for investment companies are ones that we believe also apply to the broader population of commercial entities. We highlight three concerns we have noted and on which we have seen others comment. The first two:

1. **Comparability and the issue of boilerplate language, and**
2. **The disclosure of original information**

have been discussed at length over the past two days. The third relates to

3. **The ability of the information to be operational to the investor — and not just in a negative way.** It is essential for investors to better understand the context for how the auditor determines CAMs and how those matters relate to the underlying financial information. We share concerns expressed by others that investors may inappropriately look at the auditor's reporting of a CAM or multiple CAMs as a negative indicator as it relates to a fund, resulting in misinformed investment decisions.

These are not easy issues to solve and we suggest that further discussion and outreach, including perhaps consideration of a phase-in approach, may be a prudent way forward.

One final point on CAMs related to investment companies is the expectation included in the proposal that the auditor will rarely NOT identify a matter as critical. We believe that this expectation may create pressure to identify a matter or multiple matters when there really aren't any. For example, a mutual fund that has a very straightforward and non-complex investment portfolio may not have matters that really meet the definition of a CAM, but the auditor may feel compelled to call certain matters CAMs just in order to report something under the proposed standard. So in that regard, we suggest that the PCAOB reconsider its view that the auditor will rarely NOT identify a CAM.

Other Information

In response to the proposal related to the auditor's responsibility regarding other information, we agree with the Board's view that investors and other users of the financial statements may benefit from understanding the auditor's responsibilities for information that accompanies the auditor's report and financial statements. Consistent with our view on CAMs, we also believe that this proposal should apply to investment companies and broker dealers that are issuers. However, we do not agree with the change in scope of the auditor's responsibility or in the breadth of information subject to the proposed standard.

Current standards and practice provides for a "read and consider" model. The current proposal increases the requirement to an "evaluate and conclude" model which we believe would lengthen the time the auditor would need to spend on such efforts, thereby increasing the costs. We do not perceive that these increased efforts will provide sufficient benefits to investors to justify the changes proposed in the release.

Additionally, the annual filing requirements for investment companies differ from those of commercial entities. Further analysis and outreach is important and could result in meaningful application guidance for investment companies to strike the right balance between enhancing the transparency of the auditor's involvement in information outside the basic financial statements and the additional costs in providing such information.

Summary

As the Board moves forward with its proposals, we support a post-implementation review separate from the Board's inspection process that includes an evaluation of the direct and indirect effects on financial markets, regulatory scrutiny, and litigation matters. We believe it is inevitable that auditor judgments across and within firms will differ with respect to determining and describing CAMs and, as a result, there will be diversity in practice. We also believe that users of financial statements would utilize and apply the additional information to be included in the auditor's report in diverse ways to suit their specific needs. Accordingly, monitoring the effects of the new auditor's reporting model and whether it is not only being applied appropriately by auditors but also has met user expectations will be essential to achieving the objectives of the proposed standards.

We are committed to providing meaningful and transparent information that is useful to investors and doing so in a manner that will provide the most benefit while not creating a significant burden to issuers, investors and the market in general. Thanks again for the opportunity to share our views.

Jeffrey L. Burgess

Dated: Charlotte, NC
March 25, 2014