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June 15, 2020

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

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

Dear Madam Secretary:

KPMG LLP is pleased to submit comments in response to the Public Company Accounting Oversight Board's (PCAOB or the Board) Interim Analysis No. 2020-01, Critical Audit Matter Requirements (the Request for Comment). We welcome the opportunity to work with the Board, PCAOB staff (the Staff) and other stakeholders to improve audit quality through the interim analysis of the critical audit matter (CAM) requirements.

Overview

The Staff has requested public comment on the PCAOB's interim analysis to assess the phased implementation of CAM requirements. As noted in the PCAOB's Request for Comment, "[t]he staff is conducting the interim analysis to gain an initial understanding of how auditors responded to the CAM requirements, whether and how investors are using CAM communications, and audit committee and preparer experiences."

The remainder of this letter provides our comments on specific questions contained in the Request for Comment.

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, changes in the planned audit procedures year over year were in response to changes in the issuer's facts and circumstances (e.g., new system implementations, changes in the business, or changes in the external environment relevant to the issuer) and corresponding changes in risk assessment decisions.

As noted in the PCAOB's Audit Committee Resource on Critical Audit Matters, other than the requirements to determine, communicate, and document CAMs, engagement teams were not required to perform additional audit procedures related to the CAM. While the CAM requirements did not impact an engagement team's overall audit approach related to the CAM, we believe that the requirement to communicate CAMs helped to ensure that senior members of the engagement team carefully considered and documented the principal considerations and appropriate audit response to the matter in the audit work papers.

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?

Generally, there have been no significant changes in communications between auditors, audit committees, and financial statement preparers, including the nature or frequency of such communications, except as described below with respect to the new requirement in AS 1301. Specifically, matters communicated as CAMs have historically been discussed with preparers and audit committees as a result of other communication requirements in AS 1301. As part of our dry run process, some engagement teams provided a draft audit report and discussed draft CAMs with preparers and audit committees in advance of the issuer's year-end, which historically had not been performed. In addition, the new requirement in AS 1301 to provide to and discuss with the audit committee a draft of the auditors' report resulted in a change in communications between auditors and audit committees. This new requirement in AS 1301 may have facilitated more robust discussions regarding the CAMs themselves, as well as the manner in which they were communicated in the auditors' report.

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.

We have provided information with respect to the activities and total costs related to CAM requirements to the Staff under separate cover in response to a separate data request. We did not separately track hours and costs related to preparatory activities versus hours and costs related to recurring activities. Our expectation, however, would be that hours and costs related to recurring activities, such as evaluating and updating our tools, methodology, and guidance on an ongoing basis, will remain relatively consistent going forward in the near term, as we continue to obtain insights and knowledge from our own experience related to the implementation of the CAM requirements for non-large accelerated filers, as well as insights obtained from the PCAOB through its activities, such as its interim analysis, with respect to the implementation of the CAM requirements.

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 timing of activities as it relates to the determination and drafting of CAMs was largely dependent on the timing of the underlying matter identified as a CAM, including whether the matter was recurring or related to a non-recurring transaction or event. If the matter was recurring, or arose well before the issuer's fiscal year end, the majority of activities related to the determination and drafting of the CAM generally took place prior to the end of the issuer's fiscal year, with most of the effort occurring in the third and fourth quarters of the issuer's fiscal year. In certain instances, where the matter identified as a CAM was non-recurring or arose closer to the issuer's fiscal year end (e.g., a business combination which occurred during the issuer's fourth quarter), a majority of the effort related to determination and drafting of that CAM generally occurred after the issuer's fiscal year end.

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We appreciate the Staff's careful consideration of our comments and welcome the opportunity to discuss our comments further with the Staff. If you have any questions regarding our comments in this letter, please do not hesitate to contact Matt Doyle at 212-954-2187 or mrdoyle@kpmg.com, or Rob Chevalier at 212-909-5067 or rchevalier@kpmg.com.

Very truly yours,

KPMG LLP