GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
S linkd.in/grantthorntonus
twitter.com/grantthorntonus

June 10, 2022

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. 2022-001, *Estimates and Specialists Audit Requirements*

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's) Interim Analysis No. 2022-001, *Estimates and Specialists Audit Requirements*. We appreciate the PCAOB's efforts throughout the process of implementing the requirements related to auditing accounting estimates and using the work of specialists 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 audit 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.

Auditing Accounting Estimates, Including Fair Value Measurements

Question 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 that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

The most significant activities we undertook included:

- Revisions of or enhancements to the firm's audit methodology, guidance, resources, and tools, including tools used by firm valuation specialists for valuation audit support activities

- Training development and delivery to the audit practice and applicable firm specialists
- Engagement team support and monitoring

Question 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 new requirements provided us with the opportunity to further enhance existing tools and resources while not significantly changing the firm's approach to auditing accounting estimates, including fair value measurements. We believe the new requirements generally enhanced audit quality in this area; the streamlined standard enabled auditors to better understand the applicable requirements and to align their audit work with such requirements.

Question 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.

We believe that communications were generally enhanced as a result of the estimates requirements. Firm resources and guidance were updated as a result of the new requirements, which provided auditors with an opportunity to refresh or elevate their communications with both the audit committee and financial statement preparers.

Question 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.

We did not incur significant external costs associated with implementing the new requirements. Our national office undertook the activities described in Question 1 above; however, we do not separately track the hours or costs associated with the implementation of new standards. 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.

Additionally, the firm did not separately track and accumulate engagement team time spent on auditing estimates. Based on limited observations and feedback received, the time spent on auditing estimates was not significantly different when compared to pre-adoption of the standards. Given the adoption of new firm tools and guidance, we expected a more enhanced focus on planning activities, which we also observed.

Question 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?

Engagement teams faced a variety of other factors in the year of implementation that could have impacted audit fees, including the impact of the COVID-19 pandemic, so we are unable to attribute fee changes specifically to the implementation of the new requirements.

Question 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 noted that implementing the requirements related to the following matters involved a higher degree of interpretation or analysis in comparison to other requirements.

Retrospective reviews

The requirements for retrospective reviews allow for engagement team flexibility, recognizing that the procedures and related retrospective analysis may not provide relevant audit evidence, depending on the financial reporting requirements. However, providing appropriate guidance with respect to this requirement (such as when a review is required and what procedures are relevant) did result in elevated firm discussions and evaluations. Nevertheless, we believe this is an important area of focus for any post-implementation review given the complexity of certain accounting estimates, such as an allowance for loan losses.

Concurrent adoption of ISA 540R

The firm adopted AS 2501 and related standards concurrently with the global network's adoption of the IAASB's related standard, ISA 540 (Revised) and amendments. We noted certain instances with respect to different requirements or terminologies used between the standards where additional guidance or interpretation was necessary. We do not believe the standards differed substantially; however, the differences that were present created some implementation challenges in terms of (i) determining whether the language differences signaled a difference in expected audit effort or response, and (ii) harmonizing our policies and guidance such that they can be applied broadly without always using the exact wording from one standard to another.

Question 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.

One unintended consequence we noted was the confusion that we observed for certain engagement teams in relation to paragraph 18 of AS 2501 and the procedures required with respect to critical accounting estimates. As those disclosures reside outside the basic financial statements, we noted that the definition of critical accounting estimates (as defined by the SEC) may or may not be consistent with, for example, a top-down risk-based approach to auditing. In other words, the decision by management to include an item in the critical accounting estimates disclosure may not be driven by the complexity or subjectivity of that estimate. Accordingly, the paragraph .18 requirement to perform procedures around the sensitivity of assumptions and other factors may not align with an approach that an engagement team believes is appropriate based on its audit risk assessment for that particular estimate. Further evaluation of this requirement may be beneficial as it highlights the challenge of adopting audit requirements that are specific to information disclosed outside the basic financial statements.

Auditor's Use of the Work of Specialists

Question 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?

Implementation of the new requirements for the auditor's use of the work of specialists was concurrent with implementation efforts associated with auditing accounting estimates. Please refer to our response to Question 1 in the "Auditing Accounting Estimates, Including Fair Value Measurements" section above as the activities described also relate to the auditor's use of the work of specialists.

Question 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.

We believe the following changes likely had a more significant impact on our audit approach:

- *A heightened focus on the use of auditor specialists.* The requirements with respect to focusing on more preliminary/planning activities and planned deliverables were the basis for firm-developed resources and guidance. Although a previous area of focus, the new requirements helped sharpen the targeted matters for discussion and the timeliness of such discussion with the appropriate specialists.
- *The codification of the use of pricing sources and other related audit evidence considerations, including the use of models*. While there may be a need for continued refinement in this area, potentially through staff guidance, we found the Appendix helpful, validating our firm's previously implemented approach.

With respect to the potential impacts on audit quality, we believe the two areas noted above benefited most from the implementation of the new requirements.

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

We believe that communications were generally enhanced as a result of the new requirements. Those requirements provided an avenue for timely discussions and renewed attention of the required communications to audit committees.

Question 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.

We did not incur significant external costs associated with implementing the new requirements. Our national office undertook the activities described in Question 1 in the “Auditing Accounting Estimates, Including Fair Value Measurements” section above; however, we do not separately track the hours or costs associated with the implementation of new standards. 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.

Additionally, the firm did not separately track and accumulate engagement team time spent on using the work of specialists. Given the adoption of new firm tools and guidance, we expected a more enhanced focus on planning activities.

Question 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?

Please refer to our response in Question 5 in the “Auditing Accounting Estimates, Including Fair Value Measurements” section above as it also applies to the use of the work of specialists.

Question 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.

There were various discussions within our firm and within the profession related to the determination of whether a third party is being used as a pricing service or specialist. As a result, the inclusion of the Appendix on pricing services was helpful. The challenge of determining whether an external service provider is a pricing service versus a specialist is an issue that preceded the adoption of the new requirements, and, while the codification of existing practices was helpful, the overall determination and application of guidance in this area still may be one of subjective interpretation.

Question 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 the financial statements? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

We did not identify any specific unintended consequences related to implementing the new requirements on using the work of specialists.

Question 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?

Engaging and retaining qualified auditor specialists can be a challenge. However, we do not believe that the new requirements placed undue strain or created incremental shortages on the pool of qualified resources.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at (404) 475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP