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Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

15 June 2020

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

Dear Office of the Secretary:

Ernst & Young LLP (EY US) is pleased to submit these comments to the Public Company Accounting Oversight Board (PCAOB or Board) on its Request for Comment, Interim Analysis of Critical Audit Matter Requirements. We appreciate the Board's efforts to conduct the interim review analysis to assess the phased implementation of critical audit matter (CAM) requirements and its commitment to understand the impact on audit firms, preparers, audit committees, investors and other financial statement users.

We continue to support the PCAOB's efforts to make the auditor's report more informative and relevant for investors and other users of the financial statements. We agree with the underlying objectives of the requirements for determining, communicating and documenting CAMs. We believe the communication of CAMs can help investors better understand the audit and analyze information in a company's financial statements. We commend the PCAOB for engaging with the audit profession before and during the implementation of the CAM requirements to understand the experience of audit firms. We found this dialogue helpful in supporting an effective implementation.

In the sections below, we share our views on how the CAM requirements impacted the audit process and our observations from interactions with audit committees.

Impact on the audit process

Since the release of Auditing Standard 3101, our firm invested a significant level of effort to prepare our professionals and our clients for the implementation of the CAM requirements.

These efforts primarily included both a pilot and dry-run program before the effective date of the CAM requirements to prepare our audit teams to identify, draft and communicate CAMs. This included having our audit teams share draft CAMs with management and the audit committee in connection with their interim audit procedures and continuing to assess CAMs through the conclusion of their audits. Although CAMs are based on the final result of the audit, our process allowed our audit teams to have robust discussions with management and the audit committee throughout the audit about matters that could potentially rise to the level of CAMs and why they involved especially challenging, subjective or complex auditor judgment. In addition, we observed instances where companies involved people outside of their financial reporting process, such as professionals in the general counsel's office or investor relations, to assess the impact of our reporting on CAMs in our auditor's report and to prepare the company for any questions that might arise.

To support our audit teams, we developed new guidance, enablement and training. We also implemented additional quality control procedures, which included coaching and quality control reviews. We believe these procedures helped our audit teams identify CAMs, describe CAMs in the auditor's report based on the PCAOB's standard and our firm's guidance, and document the basis for their determination in the audit files. Members of our Professional Practice group were involved in these efforts and, in some instances, helped audit teams navigate discussions with audit committees about the CAM requirements and at times even participated in these discussions.

While we acknowledge that the implementation of the CAM requirements required extensive effort as a firm, it did not result in meaningful changes to the nature, timing or extent of the audit procedures related to the matters identified as CAMs.

Observations from interactions with audit committees

Communicating CAMs gave us additional opportunities to enhance our interactions with audit committees by engaging with them in conversations about the matters identified as CAMs. The CAM-determination process allowed us to provide further insights to the audit committee about our risk assessment process. Our discussions with the audit committee about CAMs identified also provided the audit committee with additional perspective on factors that were significant to our determination of CAMs and our audit response. Audit committees were also interested in bringing their industry perspectives into these discussions to better understand why certain matters were or were not CAMs.

Although the CAM requirements did not significantly change the nature or extent of our communications related to the matters identified as CAMs, we believe these conversations enhanced the audit committee's understanding and assessment of risks to the financial statements and facilitated further discussions on the accounting and disclosure of these matters in the financial statements. In many instances, we observed that the implementation of the CAM requirements allowed companies to continue to take a fresh look at their own disclosures both in and outside of the financial statements (e.g., management's discussion and analysis).

We would be pleased to discuss our comments with the Board or the PCAOB staff regarding our views expressed in this letter.

Very truly yours,

Ernst + Young LLP

Copy to:

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