

Staff Consultation Paper, *Auditing Accounting Estimates and Fair Value Measurements* – Preliminary Overview of Comments

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Disclaimer

- The views expressed by each of the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.

Key Milestones to Date

- Staff Consultation Paper issued August 19, 2014
- SAG meeting held October 2, 2014
 - 44 participants (SAG members and panelists) and 8 observers
- Comment period ended November 3, 2014
 - 38 comment letters to date

Comment Letters Received

❑ Academics	3
❑ Accounting firms	10
❑ Associations of accountants	4
❑ Directors	1
❑ Investors, including investor associations and pension managers	3
❑ Other regulators and standard setters	1
❑ Preparers and preparer associations	2
❑ Valuation services and specialists	4
❑ Other individuals and organizations	<u>10</u>
Total	<u>38</u>

High Level Themes from Commenters

- Themes generally consistent with those raised at the October 2, 2014 SAG meeting
- Supportive of the staff's outreach efforts to obtain views on this project through the staff consultation paper
- General support for examining the Board's existing standards in these areas

High Level Themes from Commenters

- Agreement that auditing fair value measurements and estimates can be challenging
- Mixed views on several topics including whether to develop a single standard or retain multiple standards
- Differences of opinion on the nature and extent of changes to be made

High Level Themes from Commenters

- A number of commenters expressed a preference for:
 - A principles-based standard in this area, and
 - Guidance on specific issues to supplement any resulting standard-setting

- Commenters encouraged the PCAOB to work with other regulators and standard setters to address challenges such as:
 - Wide range of measurement uncertainty
 - Use of pricing services by management and auditors

High Level Themes from Commenters

- Topics raised in addition to those in the staff consultation paper included:
 - Addressing when measurement uncertainty is greater than materiality
 - Importance of considering the Board's standard on specialists in connection with a new standard on auditing accounting estimates and fair value measurements
 - How to weigh audit evidence when some evidence supports and other evidence contradicts management's estimate
 - Need for additional disclosures regarding measurement uncertainty to be provided by either management in the financial statements or the auditor in the auditor's report

Further Alignment with Risk Assessment

- General support for further integrating the potential standard with the risk assessment standards
- Related suggestions included:
 - Providing guidance on assessing risk for certain types of estimates
 - Providing additional guidance for obtaining an understanding of management's process for developing accounting estimates, including fair value measurements

Substantive Approaches to Testing

- General support for retaining the three approaches in the existing standards on auditing accounting estimates and fair value measurements
 - Testing management's process
 - Developing an independent estimate
 - Reviewing subsequent events or transactions
- No additional approaches to substantive testing were recommended

Use of Third Parties

- General support for recognizing differences in how third parties (e.g., pricing services and specialists) are involved in an audit
- Different views on how to address the use of third parties, with a range of perspectives on the extent of testing required by the auditor

Next Steps

- ❑ Finalize analysis, including discussions with the Board on direction
- ❑ Develop a proposal for recommendation to the Board