

Office of the Secretary
PCAOB

Sent by email:
comments@pcaobus.org

Brussels, 24 August 2017

Subject: Proposed auditing standard on Auditing Accounting Estimates, Including Fair Value Measurements and amendments to other PCAOB auditing standards

Dear Sir or Madam,

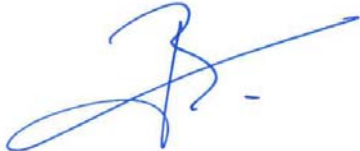
- (1) Accountancy Europe (previously known as FEE, the Federation of European Accountants) welcomes the opportunity to comment on the PCAOB proposal: “Proposed auditing standard on Auditing Accounting Estimates, Including Fair Value Measurements and amendments to other PCAOB auditing standards”. Our main comments are summarised hereafter.

GENERAL COMMENTS

- (2) Given the deficiencies detected in audit inspections in the area of audits of accounting estimates and fair value measurements, and the fact that PCAOB standards covering this subject matter have not been revised recently, we commend the PCAOB for undertaking this project.
- (3) We welcome a specific standard dedicated to accounting estimates and fair value measurement. It is important to combine the risk assessment aspect with the substantive testing one. However, this task should be undertaken cautiously keeping in mind that:
 - The standard covering the whole subject matter needs to include high level principles and allow practitioners to use a level of judgement to adapt their work depending on the nature of the estimates and fair value measurements to be audited. There is also a danger that if the standard becomes over-engineered, the public expectations may become unrealistic in relation to the auditor's ability to obtain evidence for what remain subjective estimates.
 - In some cases, it is important to include a level of ‘conditionality’ in those requirements which are not applicable in all circumstances. As demonstrated by the revision of ISA 540 Auditing Accounting Estimates, including Fair Value Estimates, and Related Disclosures, it is possible to bring these two areas together: a high-level principles-based standard in which guidance is developed in a sufficient level of detail as needed.
 - The concept of ‘challenging management’ when auditing accounting estimates and fair value measurements should appear more thoroughly in the proposal. This aspect is essential in dealing with this topic and this is why we encourage the PCAOB to emphasise more the due process to be applied to correctly apply professional judgment to support third-party evidence.

- (4) We favour alignment of auditing standards globally to the maximum extent possible that enhances both the quality of audits and the acceptance of audit work globally. Nevertheless, we note that the PCAOB has decided to take a different route than the one of the IAASB in its project on revising ISA 540 Auditing Accounting Estimates, including Fair Value Estimates, and Related Disclosures. It will be helpful that the PCAOB provides details about the rationale for doing so in the surround material.
- (5) Our detailed responses to the questions included in the PCAOB proposal are set out below. For further information, please contact my colleagues Hilde Blomme at hilde@accountancyeurope.eu or Noémi Robert at noemi@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)

APPENDIX: RESPONSES TO QUESTIONS

Questions 1-5: Discussion on the Proposed Rules

- (6) The information included in the proposal satisfactorily reflects the current audit practice. We agree with the PCAOB that it is not acceptable for the auditor to take valuations at face value without further investigation.
- (7) We welcome the idea of developing a single standard dedicated to this subject matter. However, with one standard covering the whole subject matter, it should remain high level and allow practitioners to use an appropriate level of professional judgement to adapt the work depending on the nature of the estimates and fair value measurements to be audited. In some cases, it would also be welcomed to include a level of “conditionality” in those requirements which are not applicable in all circumstances.
- (8) The proposal mentions that many firms with international audit practices are familiar with and use ISA 540. As referred to above in our general comments, we favour alignment of auditing standards globally to the maximum extent possible that enhances both the quality of audits and the acceptance of audit work globally. Nevertheless, we note that the PCAOB has decided to take a different route than the one of the IAASB in its project on revising ISA 540 Auditing Accounting Estimates, including Fair Value Estimates, and Related Disclosures. It will be helpful that the PCAOB provides details about the rationale for doing so in the surround material.
- (9) Guidance provided by standards that are aimed at being applied internationally should not be turned into a set of excessive additional requirements. We recommend the PCAOB to limit its requirements as far as possible so that the auditing standards remain principles based. We do not believe that auditing standards need to address issues relating, for instance, to national level pricing desks. They are essentially issues of methodology and are not relevant to the development of auditing standards.

Questions 6-11: Economic considerations

- (10) Whilst it is difficult to provide specific comments given that the incremental work required will depend upon the specific facts and circumstances, we think that a too detailed list of requirements to be applied in all situations will most probably result in a “check the box approach” that will increase costs but not necessarily improve quality.

Question 12-13: Special Considerations for Audits of Emerging Growth Companies

- (11) Nothing to report

Question 14: Applicability of the Proposed Requirements to Audits of Brokers and Dealers

- (12) Nothing to report

Questions 15-16: Effective Date

- (13) The timing envisioned by the PCAOB should take into account the deliberations on ISA 540 project of the IAASB. As flagged in the proposal, ISA 540 is in the process of being revised. It is strategic that the PCAOB follows its finalisation and adapt the revision of the PCAOB standard if need be. The consistency of both sets of standards would enhance both the quality of audits and the acceptance of the audit work globally.

Question 17: Proposed Standard: Scope and Objective

- (14) We agree with the scope and objective of the proposed standard.

- (15) We think that the concept of “challenging management” when auditing accounting estimates and fair value measurements should be more prominent in the proposed standard. In our view, this aspect is essential in dealing with this topic and this is why we encourage the PCAOB to emphasise more the due process to be applied to correctly apply professional judgment to support third-party evidence.

Questions 18-19: Proposed Standard: Responding to Risks of Material Misstatements

- (16) We agree with the approach taken in the proposed standard regarding the response to risks of material misstatements.

Questions 20-23: Proposed Standard: Testing the Company’s Process Used to Develop the Accounting Estimate

- (17) The auditor’s selection of approaches related to testing accounting estimates is important. Where there is a choice between developing an independent estimate, reviewing subsequent events or performing work on management’s process, the latter is often chosen. It might be helpful to suggest that this is not always the most appropriate approach and to emphasise more that professional scepticism should be demonstrated by challenging the work done by management rather than seeking corroborative evidence only. Nevertheless, we do not believe that auditing standards should attempt to cover all eventualities in this level of detail.

Questions 24-29: Proposed Standard: Developing an Independent Expectation of the Estimate

- (18) Auditors often develop “a range” of acceptable estimates or fair value measurements, but developing an independent accounting estimate by the auditor, as referred to in the proposal, could be the right way forward in some cases, but not in others. We favour a hierarchy of approaches and a scaled audit response. Emphasising the need to challenge the estimate provided by the entity is an important step forward: the auditor will have to question its reasonableness, benchmark it and compare the amount to a realistic scale for a given industry and instrument. Having said that, it might sometimes also be difficult for the auditor to find other sources of information, benchmark this information or compare the amount to a realistic scale for a given industry.

Question 30: Proposed Standard: Evaluating Audit Evidence from Events or Transactions Occurring After the Measurement Date

- (19) We agree that subsequent events or transactions occurring after the balance-sheet date should be addressed by the PCAOB Standard. The requirements described in the proposal appear adequate. An important caveat is that subsequent events should only be taken into account to the extent that it is permitted by the accounting principles relevant to the estimate in question.

Questions 31-38: Special Topics

- (20) Nothing to report

Questions 39-43: Proposed Amendments to PCAOB Standards

- (21) Nothing to report