



November 3, 2014

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

RE: Staff Consultation Paper: Auditing Accounting Estimates and Fair Value Measurements

Dear Office of the Secretary:

I am submitting the following comments to the PCAOB for consideration in response to a request for comments on the PCAOB's Staff Consultation Paper: *Auditing Accounting Estimates and Fair Value Measurements*. These comments represent my perspective as an institutional investor for a large public pension plan representing approximately 500,000 members and retirees and \$45 billion in assets.

As institutional investors, we recognize the value and importance of accounting estimates to accrual accounting; however, we also fully appreciate the challenges estimates cause to the creators, auditors, and users of financial statements. Unfortunately, when accrual accounting breaks down, poor accounting estimates are too often the culprit. We believe that the PCAOB can make a meaningful improvement in accounting estimates for all parties connected to financial statements, by the creation of more robust standards around the attestation of accounting estimates by audit firms.

We also appreciate the desire of auditors to maintain both autonomy in their audit practices and the ability to use professional judgment. However, we do not view PCAOB's proposed approach to strengthening auditing standards as overly prescriptive. What we do see is a strong proposal that outlines an appropriate framework that guides auditors to a level of auditing scrutiny that would make investors more comfortable with the auditing of accounting estimates.

When the final proposal is drafted, we support a new standard that is closely aligned yet distinctly separate from the risk assessment standards. We have always viewed the risk assessment standards as both an effective and efficient approach to setting audit standards. While we believe auditing estimates is critical and worthy of its own standards, aligning it with risk assessment standards seems prudent. Investors want auditors to spend their time efficiently, and to be efficient, auditors must first know where the biggest risk to material misstatements are located, and then appropriately plan and execute the audit around these high risk areas. This approach resonates well with us, and we believe it is the framework that should be used to develop standards for accounting estimates.

We would also like to see a stronger requirement for auditors to disclose details on their evaluation of management's estimates and judgments in the Critical Audit Matters report. Providing greater disclosure on the process of auditing estimates should help investors understand the level of scrutiny companies are receiving from their auditors. If there is too wide of a gap from what investors want from auditors and what they are receiving, better disclosure will help facilitate the conversation that can help close that gap. We believe there remains a significant expectation gap that needs to be closed through better disclosure and more robust auditing practices.

We also have some concern regarding the experience of staff auditing complex accounting estimates. Auditing accounting estimates is a challenging task for auditors and work that we hope is being conducted by knowledgeable and experienced professionals. We would also like to raise the issue of estimates being audited with reliance on management's inputs for testing. As investors and auditors are well aware, inputs are critical in addition to the importance of the model itself. We see value in auditors seeking independent inputs in addition to management's inputs. We believe the experience of auditing staff and the breadth of auditing estimates are valuable issues for PCAOB consideration.

We appreciate the PCAOB for giving us the opportunity to comment on potential changes on accounting estimate standards, and would welcome additional opportunities to provide input to the PCAOB as this process continues.

Sincerely,



Jennifer Paquette
Chief Investment Officer
Colorado PERA