

November 3, 2014

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

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

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's Staff Consultation Paper—*Auditing Accounting Estimates and Fair Value Measurements* (Consultation Paper).

We support the Board's efforts to improve audit quality by enhancing existing auditing standards, and to provide additional information to investors for decision-making. We also agree that changes to existing auditing standards for accounting estimates and fair value measurements would be helpful to clarify the requirements currently in multiple PCAOB auditing standards. We are pleased to provide our observations regarding the potential revisions to PCAOB auditing standards addressed in the Consultation Paper.

Our observations below address, among other matters, potential changes to audit standards that would require the auditor to test information provided by the company's specialist as if it were produced by the company. We are particularly concerned that such a requirement could significantly increase audit effort, particularly for complex estimates for which auditors would often need to engage their own specialists. This requirement would not take full advantage of the audit evidence provided by the company's specialists, when such specialists are found to be competent and sufficiently objective and for which the auditor is able to understand and evaluate the company specialists' methods, assumptions and findings.

Page 15—Question #2, Supervision by the engagement partner

We support supervision of an audit firm's national-level pricing desk by an engagement partner that has asked the pricing desk to perform audit procedures. Specifically, we recommend requiring the engagement partner to understand the audit procedures performed by the pricing desk and the results thereof. Inclusion of the supporting working papers prepared by the pricing desk in the respective audit files will facilitate and assist in documenting this understanding. However, due to the specialized nature of certain of the audit procedures performed by the pricing desk, we support a level of supervision by the engagement partner that does not require the same level of detailed knowledge and experience as the specialists directly performing and supervising the pricing desk procedures.

Pages 23, 24—Understanding the processes used to develop accounting estimates

The Consultation Paper indicates that AS No. 12 may be amended to emphasize that the auditor, as part of understanding internal control over financial reporting, should understand the company's methods, data, assumptions, and use of third parties in developing accounting estimates. When developing amendments to AS No. 12 that address the use of third parties, we recommend clarifying the extent of the required understanding and testing of the methods and assumptions used to develop accounting estimates. The auditor's ability to gain such information from third parties may be limited. Additionally, without such clarification, auditors may interpret this language as requiring evaluation and testing of the internal controls of the third party.

Page 32—Evaluation of the acceptability of the company's methods within the company's industry

We recommend that future auditing standards indicate that the auditor should consider whether to evaluate the acceptability of the company's methods for determining accounting methods within the company's industry, but not require such evaluations. It is not clear in the Consultation Paper how the auditor would determine that such methods are acceptable within the company's industry. The auditor would also not be able to determine the underlying facts and circumstances for use of particular accounting methods by other companies, further making an assessment of acceptability more difficult. In addition, accounting standard setters have moved, in some areas, to a principles based model, which is less prescriptive and allows for significant judgment and different methods in some situations.

Page 37—Evaluating the consistency of identified significant assumptions

The Consultation Paper lists certain requirements when evaluating significant assumptions. The items required to be evaluated for each significant assumption, indicated by items a. through e., are likely to vary in importance to the auditor's evaluation of the significant assumption, potentially resulting in unnecessary audit procedures and documentation. We recommend that future auditing standards allow the auditor to exercise judgment when determining the extent to which the specified items will be considered in the evaluation of significant assumptions.

Pages 37, 38—Reliance on specialists

As the complexity of accounting estimates increases, the need to rely on specialists becomes increasingly important to obtaining sufficient audit evidence. Examples where reliance on specialists is important may include specialists that determine levels of completion for large construction projects, specialists who calculate fair values for complex derivative instruments, and specialists who calculate estimates of environmental contingencies. PCAOB Auditing Standard AU 336 provides relevant guidance regarding an auditor's reliance on specialists, whether these specialists are engaged or employed by the company or by the auditor.

The Consultation Paper indicates that future auditing standards may require the auditor to test information provided by the company's specialist as if it were produced by the company. Such a standard could require an auditor to evaluate the methods and test the assumptions utilized by the company's specialist. For particularly complex estimates that require specialized knowledge, experience and tools, this requirement would often cause the auditor to engage a specialist instead of relying on the company's specialist. Potential difficulties in obtaining sufficient audit evidence under such requirements include:

- The company specialist's methods and assumptions may not be available to the auditor, for example due to the proprietary nature of the information;
- If the auditor attempts to engage a specialist, a very limited number of specialists may be available that are capable of determining such estimates (An example is an appraiser who is experienced in unique type of real estate in a particular geographic area.), and

- Such estimates from auditor-engaged specialists could be very costly to obtain, as compared to placing reliance on audit evidence from company specialists who are found to be competent and objective, and for which the auditor is able to understand and evaluate the company specialists' methods, assumptions and findings.

It is particularly important in situations involving complex estimates to be able to use the work of the company's specialist, subject to the requirements of AU 336 that requires determining the competence and objectivity of the specialist, obtaining an understanding of the methods and assumptions utilized by the specialist, and making appropriate tests of the data provided to the specialist. Further, the Consultation Paper is not clear as to the impact on the audit, if any, of the auditor's evaluation of the competence and objectivity of company specialists if the auditor is required to test information provided by company specialists as if they were produced by the company. We encourage development of auditing standards that, similar to AU 336, clarify the ability of the auditor to rely on both auditor and company specialists when testing accounting estimates.

Further, we recommend that future standards also clarify when reliance on a specialist by the auditor is appropriate. AU 336 indicates that the auditor may encounter complex or subjective matters potentially material to the financial statements, and that such matters may require special skill or knowledge, requiring the auditor to use the work of a specialist to obtain appropriate evidential matter. Examples of the types of matters that the auditor may decide require him or her to consider using the work of a specialist are included in AU 336. The language in AU 336 may not be sufficient to allow consistent conclusions as to when use of a specialist is appropriate.

Page 40—Auditor's responsibility for evaluating accounting estimates

The Consultation Paper indicates that a potential new standard could emphasize the auditor's responsibility to take into account all information relevant to the accounting estimate. This implies that the auditor would be required to perform audit procedures for all information relevant to an accounting estimate, which would be difficult to define and to limit. As a result, audit procedures may be performed that are not important to the auditor's evaluation. For example, the information relevant to an estimate of fair value for commercial real estate would include many factors, only a portion of which would have a reasonable chance of significantly impacting the fair value estimate. We recommend that a potential new standard allow the auditor to exercise judgment in determining the information to be considered when evaluating an accounting estimate.

Pages 40, 45—Testing of a third party's methods, data and assumptions

The Consultation Paper indicates that future auditing standards may require the auditor to evaluate the significance and reliability of data and assumptions from a third party and used in developing an accounting estimate. The Consultation Paper indicates that there may be limitations in testing data obtained from third-party sources for completeness and accuracy, with which we concur. Such limitations could include the inability to obtain the methods, data and assumptions from the third party due to the availability or proprietary nature of such information. We recommend that future standards consider such limitations as well as allow the auditor to consider the experience, expertise and objectivity of the third party and the risk of misstatement when planning the nature and extent of testing. Further, we believe it is important for future standards to be responsive to the wide range of risks that are inherent for various accounting estimates. For example, fair value estimates that are based on trading activity or assumptions derived from observable market conditions will often represent lower audit risk, which may allow the auditor to substantiate fair value estimates using simple audit procedures for lower risk estimates that don't involve detailed evaluation of the methods and assumptions underlying the estimates.

Further, we suggest that future standards differentiate sources of information that are widely accepted as containing factual information regarding estimates from those that apply various methods and assumptions in determining an estimate. For example, we recommend that future auditing standards support audit reliance on transactional information for various securities available from sources such as MSRB's EMMA, FINRA's TRACE and data-feeds from various exchanges.

We also recommend that as future audit standards are prepared addressing the requirements for testing complex estimates that are inherently imprecise, consideration be given to the level of audit precision that is reasonable for such estimates. The precision of an auditor's test of such complex estimates is inherently limited by the nature of the estimate, including its complexity, subjectivity and precision. Accordingly, an imprecise calculation or one that has a significant range of outcomes cannot be overcome by simply applying more audit procedures.

* * * * *

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards for the benefit of investors and other stakeholders. We appreciate the opportunity to comment on the potential revisions to PCAOB auditing standards, and would be pleased to respond to any questions regarding the comments we have provided. Should you have any questions please contact Clarence Ebersole at (317)706-2636, Mike Yates at (574)236-7644 or James Dolinar at (630)574-1649.

Sincerely,

Crowe Horwath LLP

Crowe Horwath LLP