NASBA
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August 30, 2017

The Office of the Secretary
The Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 043 - Proposed Auditing Standard *Auditing Accounting Estimates, Including Fair Value Measurements and Proposed Amendments to PCAOB Auditing Standards*

Dear Members and Staff of the Public Company Accounting Oversight Board:

We appreciate the opportunity to offer our comments on the PCAOB Rulemaking Docket Matter No. 043 - Proposed Auditing Standard *Auditing Accounting Estimates, Including Fair Value Measurements and Proposed Amendments to PCAOB Auditing Standards* (the Proposal).

The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories.

We offer the following comments on the Proposal.

GENERAL COMMENTS

Need for the Proposal

(a) We understand that the Proposal will replace/ amend the following current standards with a single standard:

- *Auditing Accounting Estimates* (AS 2501)
- *Auditing Fair Value Measurements and Disclosures* (AS 2502)
- *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (AS 2503)

We commend the PCAOB on its efforts to develop a single standard on auditing accounting estimates including fair value measurements and to replace multiple existing standards. The increasing complexity of financial instruments creates new risks which need to be assessed and addressed by auditors. In addition, recent accounting standards on fair value measurements, expected credit loss and other financial reporting standards mandate new accounting and disclosure requirements which contain disclosures that need to be audited. Thus, we would like to express our overall support for recognizing a need for developing the Proposal.

(b) It appears that the Proposal has been developed to address findings identified during the PCAOB's inspection process. As State Boards, we would encourage the PCAOB to continue the development of other standards where it believes audit quality can be improved in order to protect the public interest, not just through areas that have been identified during the inspection process. Auditing standards need to align with the accounting guidance at the time the guidance is issued and implemented. Otherwise, there is a risk that the standard setting process can eventually become ineffective and obsolete. For example, as companies move to digital currency auditors may start using big data and other innovations to audit these transactions.

(c) The proposed amendments do not include consideration of management's controls related to company specialists or company engaged specialists that may be utilized in developing an estimate. We believe management controls over selection and supervision of a company specialist as well as controls over inputs provided to the specialist would be important for the auditor to consider. Application guidance should be provided regarding consideration of these types of controls.

Responding to the Risks of Material Misstatement

Paragraph .07 of the Proposal describes substantive procedures that auditors need to perform in order to respond to the identified and assessed risks of material misstatement associated with accounting estimates.

We recommend adding further application guidance to address situations where an estimate is deemed a low inherent risk, for example, auditing an estimate for the allowance of doubtful accounts and write-offs where the actual historical write offs are immaterial.

SPECIFIC QUESTIONS

Question 17. Are the scope and objective of the proposed standard clear?

We believe that the scope and objective of the Proposal are clear.

Question 18. Are there challenges in tailoring the scalability of the auditor's response to identified risks of material misstatement as described in the proposal? If so, what are they and how can they be addressed?

Further improvements can be made to the Proposal to tailor the audit response based on the level of inherent risk associated with different types of estimates. For example, the amount of audit effort related to the estimate of the useful life of depreciable assets will likely differ significantly from auditing valuations of private investments.

Question 19. Should the proposed standard limit the auditor's selection of an approach and, if so, under what circumstances?

The audit approach is a matter of professional judgement which should be documented by the auditor. Thus, we don't believe that the Proposal should limit the auditor's selection of the audit approach.

Question 20. Are the proposed requirements for evaluating the company's method used to develop accounting estimates clear? Are there other matters that are important to evaluating a method that should be included in the proposed requirements?

(a) We recommend including additional application guidance on auditing internal controls and management's process of developing estimates.

(b) We believe that the Proposal should include further discussion on the auditor's consideration of management's bias. For example, if the company historically records estimates on the high end of the range and subsequently moves to the lower end of the range, auditors should consider performing additional procedures to obtain a reasonable assurance that the shift in developing the current estimate is supported by a rational change in conditions impacting the estimate.

Question 21. Are there any further requirements regarding testing internal data or evaluating the relevance and reliability of external data that the Board should consider?

We recommend including additional guidance in circumstances where the auditor's specialist is required to evaluate work performed by the management's specialist. For example, if management's specialist is using a proprietary model, what special procedures might the auditor or auditor's specialist perform in auditing this estimate.

Question 23. Are the proposed requirements for the auditor to identify significant assumptions and to evaluate whether the company has a reasonable basis for significant assumptions used clear? Do those requirements pose any practical difficulties and, if so, how could the proposed standard be revised to address those difficulties?

Paragraph 16b (i-v) discusses information the auditor will use to evaluate significant assumptions. We recommend including application guidance outlining the level and amount of documentation expected from auditors to comply with the standard requirements.

Question 28. Are the proposed requirements for developing an independent expectation when using the company's data, assumptions, or methods clear?

We recommend including additional guidance in the situations where auditors may need to use a specialist or expert outside their firm.

Question 31. Are there other matters relevant to financial instruments that should be considered or included in Appendix A of the proposed standard?

Consider new types of instruments emerging in the market, e.g. digital assets.

Question 34. Are the requirements for using information from a pricing service clear? Are there other requirements that should be considered? For example, are there other methods used by pricing services to generate pricing information that are not currently addressed in the proposed standard?

We believe that paragraph A6 should be expanded similar to paragraph A7 to provide examples of procedures to be performed by auditors.

Question 36. Is the auditor's responsibility when evaluating relevance and reliability of pricing information from multiple pricing services clear?

Paragraph A8 of the Proposal discusses the situations where the information provided by management is obtained from multiple pricing services. It might be worthwhile to define how many pricing sources are implied by "multiple" because it can be interpreted in different ways. Practitioners could conclude that more than one would meet the intention of the guidance.

Again, we appreciate the opportunity to comment on the Proposal.

Sincerely,

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NASBA Chair

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