



RSM US LLP

One South Wacker Drive
Suite 800
Chicago, IL 60606

www.rsmus.com

August 30, 2017

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

Re: PCAOB Rulemaking Docket Matter No. 043

Dear Office of the Secretary:

RSM US LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed Auditing Standard, "Auditing Accounting Estimates, Including Fair Value Measurements," and Proposed Amendments to PCAOB Auditing Standards*. RSM US LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

We appreciate the PCAOB's efforts to clarify the auditor's responsibilities with respect to accounting estimates. A more uniform, risk-based approach to auditing estimates will help to resolve the differences in requirements among the current standards for auditing estimates and the way in which those standards are applied in practice. Also, the subjective assumptions and measurement uncertainty of accounting estimates make them susceptible to management bias, and therefore specifically addressing the application of the auditor's professional skepticism regarding, and response to, potential management bias will be helpful for auditors.

Our letter explains enhancements that could be made to the proposed standard, and includes comments related to specific paragraphs of the proposal that we believe should be clarified or modified.

Proposed New Auditing Standard (AS) 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*

Objective

Paragraph .03 of proposed AS 2501 states that the objective of the auditor is "to obtain sufficient appropriate audit evidence to determine whether accounting estimates are reasonable in the circumstances, have been accounted for and disclosed in conformity with the applicable financial reporting framework, and are free from bias that results in material misstatement." While we note that considering management bias is extremely important when auditing accounting estimates, we are concerned that the objective as currently proposed in paragraph .03 has the potential for confusion as it could be interpreted to mean that the auditor's responsibilities include providing absolute assurance about whether accounting estimates are free from bias. By their nature, accounting estimates, including fair value measurements, generally involve subjective assumptions and measurement uncertainty, making them susceptible to management bias. We suggest clarifying the last phrase of the objective to read, "...and do not reflect material bias."

Developing an Independent Expectation as a Range

Paragraph .25 of the proposed standard states, "If the auditor's independent expectation consists of a range rather than a point in time estimate, the auditor should determine that the range is appropriate for identifying a misstatement of the accounting estimate and supported by sufficient appropriate audit

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

evidence.” Within this paragraph, the phrase “is appropriate for identifying a misstatement of the accounting estimate” could be construed to imply a level of precision within a range of estimates that may not be feasible. For example, in auditing some accounting estimates with high estimation uncertainty, the auditor could properly conclude that the estimate properly falls within a reasonable range of estimates, even though the range exceeds the auditor’s materiality threshold. We therefore believe the language implying a level of precision within a range of estimates should be removed from paragraph .25.

Evaluating Audit Results

Paragraph .31 of the proposed standard states:

Evaluating bias in accounting estimates includes evaluating bias in estimates individually and in aggregate. It also includes evaluating whether bias results from the cumulative effect of changes in estimates.

It is unclear whether this paragraph requires the auditor to evaluate bias in individual assumptions, such as when one assumption may be conservative and another assumption may be aggressive, but overall the individual estimate is reasonable. We therefore believe the language in this paragraph should be clarified.

Using Pricing Information from Pricing Services

We understand that there is diversity in how audit firms use information obtained from third-party sources when auditing fair value measurements. Therefore we appreciate that Appendix A of the proposed standard addresses auditing financial instruments, including procedures specific to an auditor’s use of evidence from third-party pricing sources.

Paragraph .A4.c. of Appendix A implies that for a pricing service to provide reliable pricing information, the auditor should perform procedures to determine whether the pricing service has a relationship with the company by which company management has the ability to directly or indirectly control or significantly influence the pricing service. Likewise, paragraph .A9.a. of Appendix A implies that for a broker quote to provide relevant and reliable evidence about a fair value measurement, the auditor should perform procedures to determine whether the broker or dealer is free of relationships with the company by which company management can directly or indirectly control or significantly influence the broker or dealer. We believe it would be helpful to provide guidance as to the procedures the auditor should perform that would provide sufficient appropriate evidence that the pricing service, broker or dealer does not have such a relationship with the company.

Proposed Amendments to AS 1105, Audit Evidence

Paragraph .A4.b. of the new proposed Appendix A to AS 1105 requires the auditor to obtain information about the procedures the investee’s auditor performed and the results thereof or review the audit documentation of the investee’s auditor. It is our understanding that the investee’s auditor would be under no obligation to provide this information. Additionally, it would create unnecessary delays and costs in the financial reporting process for an investee’s auditor to coordinate with multiple investor auditors. We are not aware of issues or pervasive inspection findings that necessitate a change in this aspect of the standards and note that the reasons for and assessment of the change are not discussed in the exposure draft. We believe the extant standards, specifically AS 1105.10-.14 appropriately address procedures related to and that can be applied to audits of investee information, and thus the proposed changes should not be made.

Applicability

Because accounting estimates are common in almost all financial statements, we agree that the proposed standard should be applicable to audits of financial statements of emerging growth companies. Likewise, we agree that the proposed standard should be applicable to audits of financial statements of brokers and dealers. Given the complexity of the accounting estimates common in the financial statements of brokers and dealers, it would be helpful if the PCAOB would provide more guidance to auditors regarding specific issues that may arise when applying the proposed standard in the audit of a broker or dealer.

Effective Date

If finalized, this proposed standard will require a considerable amount of time for audit firms to develop and implement effective methodologies and related training. Also, the new requirements likely will require extensive discussions with client management and audit committees as they evaluate the potential effect of the additional auditor requirements of this standard together with the requirements of the new auditor reporting model. Due to the extent of these efforts, we believe it would be prudent for the proposed standard to first be effective for audit periods ending two years after the SEC approves the final standard.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Sara Lord, National Director of Audit Services, at 612.376.9572.

Sincerely,

RSM US LLP

RSM US LLP