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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, Proposed Auditing Standard: *Auditing Accounting Estimates, Including Fair Value Measurements,* PCAOB Release No. 2017-002

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed auditing standard, *Auditing Accounting Estimates, Including Fair Value Measurements* ("Proposed Standard").

We support the Board's efforts to improve audit quality by enhancing existing auditing standards. As indicated in our letter to the Board dated November 3, 2014, we agree that changes to existing auditing standards for accounting estimates and fair value measurements would be helpful to clarify and combine the requirements which are currently in multiple PCAOB auditing standards. We are pleased to provide our observations regarding the Proposed Standard.

Proposed Auditing Standard AS 2501

Evaluating the Company's Method

Paragraph .10b of the Proposed standard requires the auditor to evaluate whether the methods used by the company to develop accounting estimates are "appropriate for the nature of the related account or disclosure and the business, industry, and environment in which the company operates." Based on facts and circumstances, we believe a company may choose a method that is outside of the norm for its business, industry or environment; which for the company may be the most appropriate method to develop the estimate. In the aforementioned situation, we are concerned an auditor would be prohibited from accepting the company's method, because it chose a method which was outside the norm for its industry, however appropriate for its facts and circumstances. On page A3-10 of the proposed standard, the Board recognizes potential challenges in practice that could result from this requirement. To address these challenges, it appears the Board intended this requirement to be a general evaluation. To achieve this objective, we recommend paragraph .10b of the Proposal be replaced to read as follows: "Appropriate for the nature of the related account or disclosure." Additionally, we recommend that a second note be added to paragraph .10 of the Proposal to read as follows: "Factors to consider in evaluating whether the methods are appropriate for the nature of the account or disclosure should include: the business, industry, and environment in which the company operates."

Identification of Significant Assumptions

It appears the objective of paragraph .15 is to identify assumptions use by the company which are important to the recognition or measurement of the accounting estimate in the financial statements. We agree with this objective; however, we believe that this objective is more closely aligned with the risk assessment process to identify risks of material misstatement. As such, we recommend the Board consider moving this paragraph to AS 2110, *Identifying and Assessing Risks of Material Misstatement* and incorporating into proposed paragraph .28(e).

Notwithstanding the above discussion, the note to paragraph .15 reads as follows: “If the company has identified significant assumptions used in an accounting estimate, the auditor’s identification of significant assumptions should also include those assumptions.” While we believe management is knowledgeable about the assumptions which are significant to an accounting estimate; we disagree with the note in paragraph .15 of the proposed standard that requires the auditor to include those assumptions which management has identified as significant in the auditor’s identification of significant assumptions. We believe assumptions identified by management as significant to the estimate should be considered a factor that is relevant to auditor’s identification of significant assumptions, as opposed to a requirement. Our position is based on the possibility that the auditor’s and management’s judgment could differ. The auditor is responsible for making appropriate judgment calls throughout the audit process and this should not differ in this area. Due to this potential difference in judgment, we recommend adding an additional factor to paragraph .15: “Are identified by the company as significant assumptions” and removing the note to paragraph .15.

Evaluating the Reasonableness of Significant Assumptions

Paragraph .18 of the proposed standard requires the auditor to obtain an understanding of how management analyzed the sensitivity of its significant assumptions for critical accounting estimates. This paragraph also requires the auditor to take that understanding into account when evaluating the reasonableness of significant assumptions. Similar to the discussion above in *Identification of Significant Assumptions*, we believe the requirement in paragraph .18 to obtain an understanding is more closely aligned with the risk assessment process to identify risks of material misstatement as the auditor is obtaining an understanding of a management process. This understanding should not only be used to evaluate management bias but also should be considered in developing the nature, timing and extent of the auditor’s procedures. It is unclear whether the auditor would be required to obtain this understanding if the auditor choose a substantive only testing strategy. Therefore, we recommend the Board consider moving the requirement to obtain an understanding of how management analyzed the sensitivity of its significant assumptions for critical accounting estimates to AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and retain the concept that the auditor use this understanding to evaluate the reasonableness of the significant assumptions and potential management bias in paragraph .18.

Similar to the concept above in which we believe the auditor’s and management’s judgment may differ with respect to signification assumptions, we believe similar differences can exist for critical accounting estimates. We believe the requirement in paragraph .18 should apply only when 1) the estimate is a critical accounting estimate and 2) an assumption was identified by the auditor as being significant based on the procedures in paragraph .15 of the proposed standard.

Developing an Independent Expectation of the Estimate

Paragraph .25 of the proposed standard states “if the auditor’s independent expectation consists of a range rather than a point estimate, the auditor should determine that the range is appropriate for identifying a misstatement of the accounting estimate and supported by sufficient appropriate audit evidence.” We believe there are estimates which are highly uncertain. The ranges for these estimates have the potential to exceed overall materiality; however, based on sufficient audit evidence the ranges may be appropriate and not representative of a misstatement. Page A3-26 of Additional Discussion of Proposed Standard and Proposed Amendments appears to acknowledge that a range developed by the auditor would include only reasonable outcomes supported by sufficient appropriate audit evidence and is thus appropriate, even if that range exceeds the auditor’s established level of materiality. We believe paragraph 25 should explicitly incorporate the above concept for clarity.

Appendix A – Special Topics

Paragraph. A8 sets forth that less information is needed about particular methods and inputs when pricing information is obtained from multiple pricing services and four conditions are met. It is unclear the level of audit evidence that would be required to support that the conditions in paragraph. A8a -. A8d are present. It is also unclear whether these conditions can be applied by grouping financial instruments into groups with similar characteristics and risks or whether the conditions need to be applied at an individual financial instrument level. Of particular concern are conditions. A8a. and. A8d. We believe if these two conditions are required to be supported by sufficient audit evidence at the individual financial instrument level, the practicability of utilizing multiple pricing services would diminish. Additionally, we believe sufficient appropriate audit evidence can be obtained based solely on conditions. A8b and. A8c being present. As a result, we believe the lead in sentence to the conditions should read "…when considering the following conditions:"

AS 1105 - Appendix A – Investments Based on Investee Financial Condition or Operating Results

As stated in A1 of this appendix – "this appendix describes the auditor's responsibilities for obtaining sufficient appropriate audit evidence in certain circumstances in which the valuation of an investment selected for testing is based on the investee's financial condition or operating results. The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence in these situations depend on:

a. The significance of the investee's financial condition and operating results to the valuation of the investment;
b. The risk of material misstatement of the associated investment; and
c. The availability of financial statements of the investee and if so, their relevance and reliability, including whether the financial statements were audited."

The above factors appear to determine the nature and extent of audit procedures primarily based on the investee statements. The risk assessment and the identified procedures noted in paragraphs. A1-. A5 could cause a significant amount of audit effort for an investee which represents a low risk of material misstatement to the investor. In addition, footnote 1 attempts to scale this appendix by indicating that "this section does not apply to investments accounted for under the equity method if (1) the investor's equity in the underlying net assets and its share of the earnings or losses of the investee are recorded based on investee financial statements that are audited by an auditor other than the principal auditor and (2) the other auditor is supervised under AS 1201 *Supervision of the Audit Engagement*, or the work and report of the other auditor are used under AS 1205, *Part of the Audit Performed by Other Independent Auditors*." However, footnote 1 only applies if the auditor scopes in the equity investment as a significant component thus applying either AS 1201 or AS 1205 depending on who the component auditors are. We believe this requirement is not appropriate because it does not consider the overall risk associated with the equity investment to the group audit in order to judgmentally determine the appropriate level of audit evidence necessary to support the recording of the equity investment. We believe it would be appropriate in some situations to simply use the investee's audited financial statements as sufficient appropriate audit evidence. We encourage the PCAOB to review this appendix and draft guidance based on the risk associated with the group audit and not the individual investee.

Effective date

PCAOB Release No. 2017-002 indicates that the proposed standard and amendments would be effective, subject to approval by the SEC, for audits of financial statements for fiscal years beginning the year after SEC approval. The time and effort necessary to incorporate the proposed standard and amendments into audit methodologies, guidance and audit programs, and to train staff, is anticipated to be significant. Additionally, the proposed standard and amendments would impact audit planning, which is performed earlier in the year. As a result, we suggest deferring the effective date to fiscal years beginning two years after SEC approval.

We appreciate the efforts the PCAOB has undertaken to improve audit quality associated with auditing estimates. We would be pleased to respond to any questions regarding our comments. Should you have any questions please contact James A. Dolinar at (630) 574-1649 or Michael G. Yates at (574) 236-7644.

Cordially,

Crowe Horwath LLP

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