

American Federation of Labor and Congress of Industrial Organizations



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November 3, 2014

Sent via Electronic Mail
comments@pcaobus.org

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

***Re: Staff Consultation Paper on Auditing Accounting
Estimates and Fair Value Measurements***

Dear PCAOB Members:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the PCAOB Staff Consultation Paper on Auditing Accounting Estimates and Fair Value Measurements dated August 19, 2014. The AFL-CIO commends the efforts by the PCAOB to consider improvements to its standards for auditing accounting estimates and fair value measurements. To advance this goal, the AFL-CIO supports the creation of a single PCAOB standard to help ensure high quality audits by auditors.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold more than \$560 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on public companies and mutual funds having reliably audited financial statements.

Improvements in the PCAOB's auditing standards for fair value measurements are necessary to ensure that audited financial statements are as accurate as possible when they include estimates of financial instruments that are difficult to value. As the

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PCAOB's Division of Registration and Inspections Director Helen Munter noted in the PCAOB Standing Advisory Group meeting on October 2, 2014, the PCAOB's inspections of registered public accounting firms have revealed significant numbers of fair value audit deficiencies. For example, she described a "very high rate of occurrence" of deficiencies in the auditing of Level 2 assets, and while there have been improvements in recent years, she noted ongoing deficiencies for Level 3 assets.

Likewise, the PCAOB's auditing standards for accounting estimates should be improved to reinforce the need for auditor objectivity when auditing accounting estimates. In the October 2nd Standing Advisory Group meeting, Ms. Munter explained how various PCAOB inspections have found a lack of professional skepticism by audit teams. She described situations where auditors collected information to support management's accounting estimates rather than to develop an independent estimate. For example, she stated there have been frequent examples of auditors who did not adequately test management's assumptions in its allowances for doubtful accounts.

Issuing a single PCAOB standard for auditing accounting estimates and fair value measurements will help address the audit deficiencies that the PCAOB has uncovered in its inspections. As the Staff Consultation Paper notes, the existing audit standards (AU sections 328, 332, and 342) have been issued at various points in time and may be perceived as containing inconsistencies. The issuance of a single, unified standard will help auditors better understand their professional obligations. In addition, incorporating the PCAOB's own risk assessment standards into a new standard will help to further reduce the risk of audit failures in these areas.

Thank you for the opportunity to comment on PCAOB Staff Consultation Paper on Auditing Accounting Estimates and Fair Value Measurements. If I can provide any additional information on the AFL-CIO's views, please contact me at 202-637-5152.

Sincerely,



Brandon Rees
Deputy Director
AFL-CIO Office of Investment

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