COLORADO PERA

August 31, 2017

Colorado Public Employees' Retirement Association
Mailing Address: PO Box 5800, Denver, CO 80217-5800
Office Locations: 1301 Pennsylvania Street, Denver
1120 W. 122nd Avenue, Westminster
303-832-9550 • 1-800-759-PERA (7372)
www.copera.org

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

RE: Request for Comments: *Auditing Accounting Estimates, Including Fair Value Measurements*

Dear PCAOB:

I am submitting the following comments to the PCAOB for consideration in response to a request for comments on the proposed auditing standard *Auditing Accounting Estimates, Including Fair Value Measurements* (PCAOB Release No. 2017-002). These comments represent my perspective as an institutional investor for a large public pension plan representing more than 560,000 current and retired members and over $44 billion in assets.

As institutional investors, we recognize the increasing importance and complexity of accounting estimates. With the increased prominence of accounting estimates, we are troubled to hear of the elevated level of accounting estimate deficiencies observed by the PCAOB inspection staff. We believe that accounting estimates represent one of the largest misstatement risks, and therefore we welcome an updated approach to the auditing standards.

Based on our interactions with management teams, we are familiar with management's assessment of their own companies. More often than not, their judgment is optimistic. This management overconfidence can create a bias in subjective accounting estimates. The risk of biased estimates highlights the need for the new standard to emphasize the need for professional skepticism from auditors. We believe the PCAOB should explicitly state that auditors have a responsibility to actively look for errors, rather than corroborating management's estimates.

We also believe that investors are better served when auditors develop independent expectations in addition to testing management estimates. When auditors begin their testing from a biased estimate, there may be a natural tendency to be anchored to the biased view. If the PCAOB does not believe it is prudent to require independent expectations, we believe the standard should at least encourage the development of independent expectations, especially in areas identified as high risk in the risk assessment process.

The PCAOB's approach to updating the risk assessment standards is a well thought-out improvement to the current standards; however, we would like to recommend one addition for consideration. While auditors are assessing the risk to accounting estimates, we think the PCAOB should require auditors to evaluate the accuracy of management's prior estimates going back a minimum of the last three years. An investment analysis that only incorporates the previous year's results would be inappropriate; we believe the same principle holds true for auditing. Management teams who have been poor estimators in the past are likely to be poor estimators in the future and deserve greater scrutiny.

Overall, we support the PCAOB's new standards on auditing accounting estimates. The new audit processes required of auditors and the increased focus on accounting estimates are a step in the right direction. We believe the new standards the PCAOB is proposing will improve audit quality and help to reduce material misstatements.

We appreciate the PCAOB allowing us the opportunity to comment on the proposed standard on Accounting Estimates and welcome additional opportunities to provide input to the PCAOB as this process continues.

Sincerely,

ACMcGarrity

Amy C. McGarrity
Chief Investment Officer
Colorado PERA