
Mr. Martin F. Baumann
Chief Auditor
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

July 30, 2015

Re: Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialist*

Dear Mr. Baumann,

We welcome your invitation to comment on your Staff Consultation Paper No. 2015-01: *The Auditor's Use of the Work of Specialist* (the "SCP"). As the leading provider of independent valuation support to public registrants and investment company managers, we have unique insight and experience with respect to the rigor and support preparers of financial statements utilize in estimating fair value and the scrutiny auditors apply in auditing fair value measurements.

Our comments herein are derived from years of experience supporting management with their valuation estimates and echo the opening remarks of Jouky Chang as panelist in the June 18, 2015 meeting of the PCAOB's Standing Advisory Group. Further, our personnel support industry efforts to enhance consistency and transparency, including participation on FASB's Valuation Resource Group, various AICPA and TAF (The Appraisal Foundation) task forces and working groups, and other industry bodies such as the International Private Equity and Venture Capital Valuation Board, and the International Valuation Standards Council.

Our goal in responding to your invitation to comment is to provide our expertise and experience as you consider changes to audit standards which, in turn, will guide the accountability of auditors in exercising their role in capital markets - ensuring that financial information meets the needs of investors and is provided on a reliable, high-quality, consistent, transparent and cost-effective basis.

Comments

We have fashioned our comments to be collectively responsive to the issues raised in SCP questions 8b, 14, and 15, which we believe are questions that are most relevant to and addressable by specialists. Further, our comments are specific to our unique role in the financial reporting process.

Question 8: *When an auditor obtains an understanding of the methods used by the company's specialist:*

b. If the auditor does not have such access, how does the auditor obtain sufficient appropriate audit evidence regarding the relevant assertion?

Question 14: *Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist? If so, how might the company's use of the work of a competent and objective specialist under the potential alternatives affect the nature, timing, and extent of the auditor's procedures?*

Question 15: *How do auditors currently obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336?*

We are encouraged by the distinctions made in the SCP of the differing roles that specialists may have in the financial reporting process (see SCP Figure 2) and remind the PCAOB to fully consider them in any rulemaking or standard setting initiatives.

Duff & Phelps predominantly support management teams to enhance their internal control process with respect to estimating fair value and/or we assist management teams with fair value analyses that serve as an input for consideration by management in preparing their financial statements. We are most often in the role of the specialists engaged by the company, as described in the SCP.

Management is responsible for the assertions contained in the financial statements and cannot abdicate this role to a third party. However, management can enhance their process by obtaining support from experienced independent valuation professionals. For example, it has become best practice of the largest Private Equity and Hedge Fund investment managers to validate fair value estimates using a qualified, experienced third party. Investors have come to rely on enhanced internal control systems which appropriately include specialized valuation expertise. Further, traditionally management has sought assistance from third party valuation specialists in complying with financial reporting requirements related to business combinations, impairment testing and share-based compensation, among others. In either case, the valuation professional is engaged to assist management in fulfilling management's responsibility of preparing financial statements.

Cognizant of our role in the financial reporting process, we have put in place an organization structure that brings together seasoned valuation professionals with the requisite technical and industry experience to address the needs of the client, that is complimented by systems and procedures that are designed to maintain independence and objectivity, identify potential conflicts, and protect confidentiality.

A bespoke work plan is thus developed for each engagement that considers our historic experience with that client and its audit team and the nature and complexity of the underlying transaction; incorporates procedures to independently test the reasonableness of management provided projections and assumptions against relevant market data and our industry experience; and provides for the continual involvement of key personnel from the client and the audit team. These steps ensure our team has properly interpreted the information provided by management and for management to understand the basis for the assumptions being applied in our methods. Further, it is of paramount importance that management is fully informed as to our valuation process and conclusions so they can take appropriate ownership and responsibility for preparation of the financial statements.

Our firm's quality control (QC) process is a critical component of and is embedded into our overall work plan. It starts with the careful selection of key personnel with the needed product and market disciplines that understand not only the subject assets / liabilities, but also the appropriate models and market factors to take into consideration in their work.

During the project execution phase, we use industry best practice guides as a primary reference to maintain the consistency and quality of our valuations. Further, we will model varying scenarios / alternative assumptions that impact underlying cash flows to assess sensitivities and key valuation parameters. Our executive review process by MDs and directors pays close attention to market comparable intelligence, unique asset / liability attributes, and the sensitivities modeled by our colleagues before forming their tentative conclusions. The models are also subject to at least one full tic and tie validation by D&P professionals that are independent of the engagement team.

Before our work product is shared with the client, an independent review of the analysis and findings is conducted by the Concurring Managing Director. The review includes an assessment of work paper defensibility, comparability to and consistency with other engagement work products, an assessment of market conditions considered, and the uniqueness of the asset / liability.

Our work product is presented in the form of a written report accompanied by supporting exhibits. Our experience shows that the combination of auditor involvement at the onset and throughout the engagement, the contents of the written report and the exhibits, and our responses to the auditor's queries has provided the auditors with sufficient basis upon which to conclude and sign off on our work product.

We appreciate the opportunity to provide the Staff our thoughts on this important initiative. Our comments have been, by design, relatively brief and high level. We would welcome the opportunity to provide the Staff with additional information on how management uses third parties to assist in their fair value estimates and the multitude of ways that auditors evaluate such enhancements to managements control process.

Please let us know how we can be of further assistance.

Best regards,



Paul F. Barnes
Managing Director
Leader – Valuation Advisory Services



Jouky Chang
Managing Director
Valuation Advisory Services