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### At a glance

The staff of the PCAOB's Office of the Chief Auditor is evaluating whether existing PCAOB standards relating to auditing accounting estimates and fair value measurements can and should be improved.

## PCAOB issues staff consultation paper seeking comment on auditing accounting estimates and fair value measurements

### What happened?

On August 19, 2014, the Public Company Accounting Oversight Board ("PCAOB") issued for public comment a [staff consultation paper](#) on standard-setting activities related to auditing accounting estimates and fair value measurements. The staff consultation paper discusses and solicits comment on certain issues related to auditing accounting estimates and fair value measurements in order to assist the PCAOB staff in evaluating whether the existing PCAOB auditing standards can and should be improved. The PCAOB staff is specifically seeking feedback on: (i) the potential need for changes to the PCAOB's existing auditing standards to better address changes in the financial reporting frameworks related to accounting estimates and fair value measurements, (ii) current audit practices that have evolved to address issues relating to auditing accounting estimates and fair value measurements, (iii) a possible approach to changing existing auditing standards, and the requirements of a potential new standard, and (iv) relevant economic data about potential economic impacts to inform the PCAOB's economic analysis associated with standard setting in this area.

### Overview of the approach being considered by the PCAOB staff

Although the PCAOB staff identified a number of alternative approaches that the PCAOB may wish to consider, the PCAOB staff is considering developing a single standard related to auditing accounting estimates and fair value measurements instead of separate standards that exist today. The staff consultation paper discusses that the potential new standard could be designed to:

- Align with the PCAOB's risk assessment standards
- Generally retain the approaches to internal control and substantive testing from the existing standards, but include requirements that apply to both accounting estimates and fair value measurements
- Establish more specific audit requirements related to the use of third parties in developing accounting estimates and fair value measurements, and
- Create a more comprehensive standard related to auditing accounting estimates and fair value measurements to promote greater consistency and effectiveness in application

### Use of third parties

A new standard could include the existing requirement related to testing assumptions for fair value measurements developed by a company's specialist, but apply it more broadly to information provided for accounting estimates. As such, if a company uses a specialist to develop an accounting estimate, a new standard could direct the auditor to test that information as if it were produced by the company. In this case, the auditor would be

required, as applicable, to evaluate the appropriateness of the methods, test the data used, and evaluate the reasonableness of significant assumptions, with respect to the information provided by the specialist.

Additionally, the PCAOB staff is considering how a potential new standard could address audit evidence obtained from third-party sources, such as pricing services and broker-dealers. Given the differences in how values of financial instruments are derived and obtained, the PCAOB staff is exploring whether a new standard should set forth specific requirements for evaluating information from third-party pricing sources as part of evaluating the reliability and relevance of the evidence. For example, to evaluate reliability, the auditor could take into account the methods used by a third-party in determining fair value and whether the methodology used is in conformity with the applicable financial reporting framework. As it relates to evaluating the relevance, the auditor could determine, among other matters, when there are no transactions either for the asset or liability or comparable assets or liabilities, how the information was developed, including whether the inputs developed represent the assumptions that market participants would use when pricing the asset or liability, if applicable.

### **Why is this important?**

Financial statements and disclosures of most companies include accounting estimates and fair value measurements.

### **What's next?**

Comments on the staff consultation paper are due on November 3, 2014. Additionally, the PCAOB announced it will host a meeting of its Standing Advisory Group (“SAG”) on October 2, 2014, in Washington, D.C., to discuss matters related to auditing accounting estimates and fair value measurements. The agenda and meeting logistics will be announced closer to the meeting date.

## **Questions?**

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the National Professional Services Group (1-973-236-7800).

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