

**MEMO# 30856**

August 30, 2017

## **ICI Files Comment Letter on PCAOB Auditing Accounting Estimates Proposal**

[30856]

August 30, 2017 TO: ICI Members SUBJECTS: Audit and Attest

Valuation RE: ICI Files Comment Letter on PCAOB Auditing Accounting Estimates Proposal

Today the Institute filed the attached comment letter on the Public Company Accounting Oversight Board's proposal to amend its audit standards relating to auditing accounting estimates and fair value measurements.[\[1\]](#) The proposal would replace three auditing standards on accounting for estimates and fair value measurements with a single standard. The proposal includes an appendix that addresses auditing the fair value of financial instruments, including the use of information from pricing services. The proposal would also amend AS 1105, *Audit Evidence*, by adding an appendix that describes the auditor's responsibilities for obtaining sufficient appropriate audit evidence where the fair value measurement of an investment is based on the investee's financial condition or operating results.

The comment letter expresses support for the Board's mission to oversee audits of public companies in order to protect the interests of investors. The letter expresses concern, however, with proposed changes relating to audit evidence. Those changes would apply to situations in which the valuation of an investment selected for audit testing is based on the investee's financial condition or operating results. This could include, for example, investments in private placements where the fair value measurement is based on a multiple of revenue or earnings derived from the investee's financial statements.

The comment letter makes several comments on the proposed changes relating to audit evidence. First, the letter notes that audits of private company financial statements may be performed under AICPA standards and recommends that any final standard acknowledge that such audits do not increase the risk of material misstatement or necessitate additional procedures to be performed by the investor's auditor. Second, the comment letter observes that the proposal would require auditors to perform procedures on factors or multiples applied to revenues or earnings used to derive a fair value measurement. The letter recommends that any final standard specify the types of procedures auditors should perform on factors or multiples used in fair value measurements. Third, the comment letter expresses concern that it will be difficult for the investor's auditor to obtain access to the investee auditor's work papers as contemplated under the proposal, and that such requirement could add significantly to the work performed by the investor's auditor. The

comment letter recommends that the investor's auditor instead be permitted to examine management's process for determining that the information obtained from the investee's financial statements is reliable.

The proposal includes a note addressing the auditor's responsibility to obtain audit evidence relating to fund investments in other funds. The comment letter supports the note, which would allow an auditor to review the investor fund's procedures for understanding and assessing the investee fund's valuation process, rather than obtaining information about the audit of the investee fund or reviewing documentation relating to the audit of the investee fund. The letter then recommends that the note indicate that it does not apply to investments in mutual funds where net asset value per share is published and is the basis for current transactions.

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Senior Director, Fund Accounting and Compliance

## [Attachment](#)

### **endnotes**

[1] The PCAOB proposal, *Auditing Accounting Estimates, Including Fair Value Measurements*, PCAOB Release No. 2017-02 (June 1, 2017) is available on the PCAOB website at <https://pcaobus.org/Rulemaking/Docket043/2017-002-auditing-accounting-estimates-proposed-rule.pdf>. For a summary of the proposal see [ICI Memorandum No. 30798](#), dated July 27, 2017.