HARVEST
Transparent Investment Valuations

June 7, 2022

PCAOB
Office of the Secretary
1666 K Street NW
Washington, D.C. 20006-2803
comments@pcaobus.org

Re: Request for Comment
Interim Analysis No. 2022-001
Estimates and Specialists Audit Requirements

Dear Board Members:

Harvest Investments, Ltd. thanks PCAOB for the opportunity to comment on Interim Analysis No. 2022-001, Estimates and Specialists Audit Requirements. As a valuation specialist and source of prices and other investment data, Harvest has served the financial reporting community for more than 30 years. Harvest provides affordable, transparent, high-quality valuations to auditors and other companies to mitigate the risk of material misstatement and protect investors.

Harvest applauds the PCAOB for providing clarity and transparency to the financial reporting community with these new accounting requirements. In this letter, please find our comments regarding auditing accounting estimates (including fair value) and the use of a specialist. Overall, Harvest found implementation of the new requirements relatively simple and believes the requirements improved valuation transparency for our audit clients, the financial reporting community, and investors.

Auditing Accounting Estimates, Including Fair Value

Questions for auditors, audit committee members, and financial statement preparers:

1. How did audit firms approach implementation of the new requirements for auditing accounting estimates, including fair value measurements? What were the most significant activities that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

Harvest's audit clients addressed the new requirements for auditing estimates, including fair value measurements, through a variety of methods including increases in the following:

- Communication
- Testing (shift from sampling)
- Documentation
- Due diligence meetings

- Contractual agreements
- Firm-wide trainings
- Pre-planning
- Follow-up questions

The most significant audit change Harvest witnessed was a shift from sampling to a complete review of SEC issuers' holdings. We also saw an increase in requests for due diligence meetings, which focused on how Harvest could help clients meet the new requirements. In addition, more firms engaged us to conduct training sessions for their engagement teams that addressed the new requirements and best uses of Harvest reports. Lastly, Harvest saw an increase in contractual agreements and communication, particularly with smaller firms.

Audit teams required more documentation and transparency in the valuation process. Therefore, Harvest added more robust pricing information at the security level. The added information included valuation risk, the nature and characteristics of the investment, ultimate source of pricing data (trades, models, etc.), reasonable range determinations, valuation inputs, basis for determining valuation inputs, and level of subjectivity/observability of those inputs. Audit teams used this additional information to better document valuation methodologies, assess variances and evaluate the observability of the inputs.

While information about security features, trading in exact and comparable securities, input development, and input observability are always the basis for our valuation methodologies, the new PCAOB requirements encouraged us to provide more detail in our reports. This helped us better meet our clients' needs and improved understanding, transparency, and public trust.

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

The new requirements led auditing practices to deepen their understanding and documentation of the investments, methodologies, and inputs used to develop individual valuations. Audit firms obtained and documented additional data within their deliverables to enhance their understanding of their accounting estimates and to make appropriate determinations about potential misstatements.

Harvest found that audit clients applied increased rigor in financial instrument reviews for public and private filers, improving audit quality across the board.

3. To what extent did the new requirements have implications for communication and dialog between auditors, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

As described in previous comments, Harvest experienced increased communication, pre-planning, training, discussion and understanding of fair value deliverables from audit and issuer clients. Harvest believes this is a positive development as increased documentation and transparency in the valuation process improves audit quality, lowers the risk of material misstatement, and protects investors.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/ efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/ efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/ efficiencies will increase, decrease, or not change in future years.

Harvest did observe new costs to audit firms, which were offset by new efficiencies. Clarity from the PCAOB about the amount of work required for lower risk items (items with documented liquid trading) led to an improved risk-based approach to valuation of financial instruments. On traded items such as equities, bonds, convertibles, and other instruments, Harvest could evaluate the trade activity and volume, providing more transparency into the trade data, lowering turnaround times, and reducing fees.

Harvest was able to add additional services and increased transparency into fair valuation deliverables with almost no increase in fees. This is because our valuation processes and methodologies always included information about the nature and characteristics of individual instruments, trading in exact and comparable securities, input development and observability and valuation risk. The new requirements did encourage us to include more of that detail in our reports.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g., new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort? What other costs, if any, did companies experience directly related to the new requirements?

Harvest's fee structure did not change due to the new accounting requirements. However, audit clients who shifted from a sampling methodology to testing all holdings saw their total fee rise due to this increase in Harvest's workload.

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

Harvest does not feel that our audit clients encountered significant challenges in implementing the new requirements.

7. Did the new requirements give rise to any unintended consequences? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

Harvest is not aware of any unintended consequences related to the new requirements.

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Auditor's Use of the Work of Specialists

Questions for auditors, audit committee members, financial statement preparers, and other stakeholders:

1. How did audit firms approach implementation of the new requirements for the auditor's use of the work of specialists? What were the most significant activities that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

Harvest's audit clients addressed the new requirements for the use of specialists by conducting due diligence meetings, entering into contractual agreements and pre-planning at the national and engagement levels. Specifically, audit firms worked closely with Harvest to understand and document the following:

- Reputation and standing in the financial reporting community
- Level of experience
- Knowledge, skill, ability, and frequency of valuing specific asset classes
- Valuation methodologies
- Controls procedures
- Details of agreed-upon deliverables
- Challenge and evaluation processes
- Objectivity and independence at the engagement level

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

The new requirements directly impacted the amount of detail in the annual due diligence conducted by our clients before hiring Harvest as their auditor-engaged specialist. Harvest believes that having a specialist with experience, knowledge, skill, ability, and independence improves the quality of valuation work, mitigates valuation risk, improves financial reporting, and protects investors. Harvest always makes the information listed in question #1 (and additional information) available to clients and assesses independence to ensure objectivity.

3. To what extent did the new requirements have implications for communication and dialog between auditors, specialists, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

The new requirements have increased communication between auditors and specialists, clarified valuation expectations and abilities, ensured competence and increased transparency and trust in valuations.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/ efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/ efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/ efficiencies will increase, decrease, or not change in future years.

Audit firms incurred one-time costs for creating new procedures that comply with the new requirements. However, annual due diligence meetings and documentation related to specialists were already in place at most firms. Therefore, the new requirements created efficiencies by clarifying areas of focus.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g., new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort or use of the work of specialists? What other costs, if any, did companies experience directly related to the new requirements?

No comment.

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

Harvest does not feel our audit clients encountered significant challenges in implementing the new requirements for auditor-engaged specialists. We made the relevant information readily available, and we believe it had a positive impact on the quality of valuations used in financial reporting.

7. Did the new requirements give rise to any unintended consequences? For example, have the new requirements limited the ability of smaller firms to compete in the audit services market and, if so, why? Do the new requirements divert auditor attention from other important audit tasks that warrant greater attention? Have the new requirements affected how companies use specialists in preparing the financial statements? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

Harvest does not believe the new requirements gave rise to any unintended consequences. Audit firms of all sizes can engage Harvest as a specialist to conduct a due diligence meeting and collect annual documentation.

8. Have audit firms or preparers encountered any shortages or strains on the pool of qualified specialists? If so, what factors have contributed to such shortages or strains?

Harvest has not experienced any issues meeting the needs of new audit clients. We observed that the new requirements saved time and money by streamlining procedures and improving valuation quality.

We thank the Board for reviewing our comments. Please direct any questions related to this release to Susan DuRoss at 312-823-7051.

Sincerely,

Harvest Investments, Ltd.