



November 22, 2019

Ms. Sherry Hazel  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

**Re: ASB August 28, 2019 Proposed Statement on Auditing Standards, *Auditing Accounting Estimates and Related Disclosures***

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC appreciates the effort of the Auditing Standards Board (ASB) to consider the revisions to auditing accounting estimates resulting from the IAASB and PCAOB projects in developing the changes to generally accepted auditing standards (GAAS) described in this ED. Generally, TIC agrees that the proposed changes will help auditors to perform appropriate audit procedures relating to auditing accounting estimates and related disclosures and will drive auditors to exercise professional skepticism, thereby improving audit quality.

***Request for Comment 1:*** *Given the approach by the ASB to draft the proposed SAS using a framework-neutral approach, are there any instances in which the use of certain examples or terminology in the proposed SAS would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States (for example, U.S. GAAP)?*

TIC did not identify any instances where the use of examples or terminology created a lack of clarity when applying this standard in the US.

***Request for Comment 2:*** *Are paragraphs 2–9 of the proposed SAS helpful in describing the key concepts of the proposed SAS, and do they adequately explain the interplay between the proposed SAS and other AU-C sections?*

TIC believes that paragraphs 2-9 of the ED appropriately describe the key concepts and their relationship to other AU-C sections. TIC is pleased that the concept of scalability is clearly addressed in the description of the nature of accounting estimates (paragraph 3) which provides important context to the discussion of the key concepts which follow.

***Request for Comment 3:*** Do you agree with the approach to the proposed changes to AU-C section 501? If not, please provide suggestions on a way forward.

TIC has no objections to the approach regarding changes to AU-C section 501.

***Request for Comment 4:*** Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments?

TIC believes the proposed effective date allows for adequate time to adopt the new standard.

## **ADDITIONAL COMMENTS**

### Paragraphs 35 and 38e

TIC notes that paragraphs 35 and 38e of the ED include the phrase “whether the accounting estimates and related disclosures are reasonable in the context of the applicable reporting framework or are misstated.” TIC suggests that “materially” be inserted before misstated in each of those paragraphs.

### Management Bias

The possibility of management bias is a risk factor to be considered when applying paragraph 12 of the ED and, therefore, TIC would suggest a reference in paragraph 12 to the possibility of management bias and AU-C section 240 to make clear that the auditor should look to that section as well when considering risk factors.

### Audit Evidence

TIC believes that in many audits of smaller or less complex entities, the auditor’s response to the risk of material misstatement related to accounting estimates will be to obtain evidence from subsequent events (paragraph 17a) or to develop an auditor’s point estimate or range (paragraph 17c).

In audits where paragraph 17b is not part of the approach to auditing accounting estimates, any possible management bias would not be part of the auditor’s point estimate or range or subsequent events and, therefore, the auditor might not be aware of indicators of management bias. Further, the existence of differences between management’s recorded amount and the point estimate or range developed by the auditor might be more indicative of management’s inability to understand estimation uncertainty than bias, particularly in a less complex entity.

TIC is concerned that paragraph 32 of the ED does not convey these difficulties in the auditor’s assessment of management’s judgments. Where management has a well-documented process of making an estimate, including the assumptions and their support and the assessment of estimation uncertainty, it might be much easier to identify indicators of management bias.

However, in less complex entities, where the processes are less detailed, it is often not possible to assess whether there is a bias inherent in the recorded estimate.

Therefore, TIC would like to see paragraph 32 expanded to include an acknowledgment of these issues, in order that the expectation of identifying indicators of management bias is more realistic.

#### Documentation Requirements

Due to the concern articulated in the previous section, TIC also is concerned about the documentation requirements that might be required in paragraph 38d. However, if paragraph 32 was modified to make clear that the auditor will, in many cases, not be able to identify indicators of management bias, paragraph 38d would be acceptable as written.

#### Management's Intent

TIC is concerned that the auditor most likely has no ability to determine whether management has intended to mislead and, therefore, questions the relevance of the last sentence in paragraph 32. We are concerned that this sentence could imply that an auditor has the ability to conclusively discern management's intent. TIC prefers the "softer" language in paragraph A137 to convey the relationship between management bias and fraud.

TIC appreciates the opportunity to present these comments on behalf of PCPS Member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair  
On Behalf of the PCPS Technical Issues Committee