



Agenda Item 8E

Auditing Accounting Estimates — Comments Letters Analysis (Letters 1-30): General Comments

This file contains general comments from the comment letters received.

Comment Letter Listing

| <i>Letter No.</i> | <i>Affiliation</i> |
|-------------------|---|
| 1 | Tennessee Division of State Audit |
| 2 | Ainsley Winterrowd |
| 3 | Jordon Londer |
| 4 | NASBA |
| 5 | CalCPA |
| 6 | Texas Society of CPAs (TXCPA) |
| 7 | Office of the Washington State Auditor |
| 8 | Virginia Society of CPAs (VSCPAs) |
| 9 | Michigan Office of the Auditor General (MI OAG) |
| 10 | RSM US LLP |
| 11 | Deloitte & Touche LLP |
| 12 | U.S. Government Accountability Office (GAO) |

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| <i>Letter No.</i> | <i>Affiliation</i> |
|-------------------|--|
| 13 | WIPFLI/Mind the GAAP |
| 14 | NYSSCPA |
| 15 | Illinois CPA Society (ICPAS) |
| 16 | Commonwealth of Virginia |
| 17 | National State Auditors Association (NSAA) |
| 18 | GT |
| 19 | EY |
| 20 | Eide Bailly |
| 21 | Florida Institute of CPAs (FiCPA) |
| 22 | TIC |
| 23 | The Connecticut Society of CPAs (CT CPAs) |
| 24 | CohnReznick |
| 25 | CliftonLarsonAllen LLP (CLA) |
| 26 | BDO |
| 27 | Hunter College Graduate Program |
| 28 | KPMG |
| 29 | American Bankers Association (ABA) |
| 30 | PWC |

General Comments

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|---|----------------------------|------------------|--|------------------------------|
| 1 | Nodes\\general | 10 - RSM US LLP | <p>Consideration of PCAOB Release 2018-005 Appendix A, “Special Topics”</p> <p>We encourage the ASB to undertake a project to evaluate the guidance in Appendix A, “Special Topics,” of PCAOB Release 2018-005 and incorporate relevant policies and guidance from this appendix into AU-C 540. Topics considered in this appendix include (a) identifying and assessing the risks of material misstatement related to the fair value of financial instruments, (b) use of pricing information from third parties as audit evidence, (c) using pricing information from pricing services, (d) using pricing information from multiple services, (e) using pricing information from a broker or dealer and (f) unobservable inputs. Additional standards and guidance on these topics will better enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates and related disclosures.</p> <p>Consideration of PCAOB Release No. 2018-006</p> <p>Because the auditor often uses the work of specialists when auditing accounting estimates, we believe it is important for the ASB to also consider the content of PCAOB Release No. 2018-006, Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists, to discern whether any of</p> | See issue 7 in agenda item 8 |

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| | | | those amendments may also be appropriate for an audit conducted in accordance with U.S. generally accepted auditing principles (U.S. GAAS). We believe the timely completion of the evaluation of the elimination of unnecessary differences between PCAOB Standards and U.S. GAAS in the use of the work of specialists is highly relevant to practitioners. | |
| 2 | Nodes\\general | 11 - Deloitte | We substantially agree with the approach to the proposed changes to AU-C section 501. However, overall, we recommend the ASB develop a holistic plan to clearly identify the scope and purpose of this AU-C section and in doing so consider whether a project should be undertaken by the Board to address the requirements and application material in AU-C section 501 to verify the special considerations that remain unique and specific to our jurisdiction. | See issue 7 in agenda item 8 |
| 3 | Nodes\\general | 21 - Florida Institute of CPAs | <i>Application Material</i> After reviewing the ED and discussing the proposed standard, the Committee believes the proposed standard may require modifications to the management representation | In accordance with AU-C 580 management is expected to have sufficient knowledge in which to base the |

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| | | | letter. In some cases, the Committee believes certain representations relating to estimates may need to be bifurcated and attested to by different members of management. For example, estimates relating to asset retirement obligations are not typically measured by accounting and finance personnel because engineers play a major role in these measurements. The Committee believes it would be appropriate to include a discussion of this in the Application Material. | representations – and may decide to make inquiries of others who participate in preparing the financial statements. (Paragraphs ..A3-.A4). Ultimately, management is responsible. No change proposed. |
| 4 | Nodes\\general | 21 - Florida Institute of CPAs | <p><i>Audits of Governmental Organizations and Small Entities</i></p> <p>While the Committee agrees with the proposed requirements outlined in the ED, some concerns exist relating to the audits of governmental organizations and relatively small entities. Based on their experience, Committee members believe it is highly likely the financial statement auditor for a government or small entity provides various nonattest services. Frequently these nonattest services involve assistance in developing estimates relating to fair value, uncollectible receivables, future cash flows, discount rates, depreciable lives and salvage values of capital assets, et al. The Committee is concerned the proposed requirement in paragraph 4 to separately assess inherent risk and control risk may prove problematic in audits of some governmental organizations and smaller entities. For example, the auditor might not conclude an estimate of future cash flows and the related discount rate is a significant risk because he/she assists management in developing this information. This</p> | The proposed SAS would apply to all entities. No change made. |

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| | | | type of a situation could also have an effect on implementing the requirements in paragraphs 21 – 26 relating to responding to the assessed risk of material misstatement in “management’s” estimates. Therefore, the Committee believes the Application Material relating to paragraph 4, as well as paragraphs 21 – 26, should include guidance for audits of governmental organizations and smaller entities. | |
| 5 | Nodes\\general\general supportive | 04 - NASBA | <p>Overall Comment</p> <p>We support the ASB’s efforts in developing revisions to generally accepted auditing standards for auditing accounting estimates using ISA 540 (Revised) as the base and aligning with the PCAOB’s Auditing Standard 2501 (Revised) as much as possible.</p> <p>From the State Board’s charge to be regulators protecting the public interest, the consistency among the standards is beneficial in regulatory and enforcement matters involving CPAs and firms. We believe the best way to avoid public confusion is to limit the differences in the three standards.</p> | Supportive |
| 6 | Nodes\\general\general supportive | 06 - TXCPA PSC | In general, we did not note any substantive changes to the current requirements regarding auditing accounting estimates and the related disclosures. The proposed standard appears to | Supportive |

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| | | | focus on alterations to the wording of the current standard to align with the IAASB. | |
| 7 | Nodes\\general\general supportive | 08- VSCPA | In general, the Committee supports the Board’s objectives to enhance the auditing standards relating to auditing accounting estimates in a manner that will enable auditors to appropriately address the complexity of scenarios from new accounting standards that include estimates and related disclosures. Overall, we agree with the Board’s approach to enhance the auditor’s focus on factors driving the uncertainty of estimates and potential management bias. | Supportive |
| | | | | |
| 8 | Nodes\\general\general supportive | 09-MI OAG | We have reviewed the AICPA Auditing Standards Board's proposed statement on auditing standards entitled Auditing Accounting Estimates and Related Disclosures and generally agree with the proposed standards. | Supportive |
| 9 | Nodes\\general\general supportive | 10 - RSM US LLP | We understand the proposed SAS was drafted by the Auditing Standards Board (ASB) primarily to (a) better enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates and related disclosures, (b) consider implications of the International Auditing and Assurance Standards Board’s (IAASB) and Public Company Accounting Oversight Board’s (PCAOB) estimates projects when auditing accounting estimates for audits of nonissuers, | Supportive |
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| | | | <p>(c) enhance the auditor’s focus on factors driving estimation uncertainty and potential management bias, (d) help auditors perform appropriate audit procedures when auditing accounting estimates and (e) drive auditors to exercise professional skepticism when auditing accounting estimates.</p> <p>Overall, we believe the proposed changes will help auditors better perform appropriate audit procedures relating to auditing accounting estimates and related disclosures and will encourage the use of professional skepticism in auditing estimates. We found the requirements in the proposed SAS understandable and the related examples and references to other standards helpful. We support the ASB’s strategy to converge with the IAASB’s standards and applaud the additional consideration of the requirements in PCAOB Release No 2018-005, Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards. Those considerations strengthen this exposure draft.</p> | |
| 10 | Nodes\\general\general supportive | 11 - Deloitte | <p>Overall Comments</p> <p>We are supportive of the objectives of the ASB’s proposal to converge with the recently released International Standard on Auditing (ISA) 540 (Revised), <i>Auditing Accounting</i></p> | Supportive |

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| | | | <p><i>Estimates and Related Disclosures</i> (ISA 540 (Revised)), and are also supportive of the ASB’s efforts to consider the Public Company Accounting Oversight Board’s (PCAOB) recently adopted Auditing Standard (AS) No. 2501 (Revised), <i>Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards</i> (PCAOB Release No. 2018-005), and whether the requirements and guidance in this PCAOB standard could or should also be incorporated into the ASB’s proposed SAS to enhance audit quality for audits of nonissuers. Convergence to ISA 540 (Revised) brings the following integral concepts to the proposed SAS:</p> <ul style="list-style-type: none"> • The enhancement and ability to provide for a more granular risk assessment process over accounting estimates, which will support the auditor’s efforts to drive targeted procedures that are responsive to the granular risk assessment, leading to improvements in the quality of our audit. This includes more focus on identifying the factors driving estimation uncertainty, complexity, and subjectivity and potential management bias, in addition to added emphasis for an auditor to understand the entity and its environment and internal control in relation to accounting estimates. Targeting the auditor’s work efforts based on their risk assessment, in particular | |

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| | | | <p>focusing the auditor’s attention on those matters that are the most difficult to audit and particularly unique to the auditing of accounting estimates, is the appropriate way forward.</p> | |
| | | | <ul style="list-style-type: none"> The incorporation of scalability, specifically as it relates to how the requirements of the proposed SAS can be achieved depending on whether the accounting estimate is relatively simple or complex. Tailoring the extent of procedures will enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include accounting estimates while also considering those more simplistic scenarios that exist for certain other accounting estimates. This will allow the auditor to appropriately execute on the requirements of the proposed SAS while also considering the nature and circumstances relevant to each individual accounting estimate. Demonstrating how auditors can achieve this level of scalability in the U.S. environment, particularly for simpler accounting estimates, through supplemental materials that include specific examples will be useful in the effective implementation of the proposed SAS. | |
| | | | <p>Considerations Regarding Audit Evidence</p> | |
| | | | <p>As highlighted in the Explanatory Memorandum to the proposed SAS, in finalizing ISA 540 (Revised), the International Auditing and Assurance Standards Board</p> | |

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| | | | <p>(IAASB) issued a series of conforming amendments to other ISAs, including conforming amendments to ISA 500, Audit Evidence (ISA 500). The ASB determined that rather than proposing amendments to AU-C section 500, Audit Evidence (AU-C section 500) as part of this proposed SAS, the conforming amendments would be made as part of the proposed SAS, Audit Evidence. While the proposed SAS, Audit Evidence, includes substantially all the IAASB’s conforming amendments to ISA 500, there are differences, as well as certain changes, that have been made to the ISA 500 conforming amendments. D&T provided comments and recommendations pertaining to these conforming amendments in our September 18, 2019, comment letter to the ASB for the proposed SAS, Audit Evidence, as in certain instances wording changes were made that we believe are</p> | <p>Provide comments to Evidence task force</p> |

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| | | | unnecessary, alter the intended meaning of the requirements and guidance, and will have unintended consequences when contemplated in the context of this proposed SAS. These are summarized in Appendix III. We recommend these be addressed as part of finalizing the proposed SAS, Audit Evidence, or if not, be addressed as part of this proposed SAS. | |
| 11 | Nodes\\general\general supportive | 12 - GAO Comments on Estimates | We support the American Institute of Certified Public Accountants' Auditing Standards Board's (ASB) efforts to converge the standards for auditing accounting estimates with those of the International Auditing and Assurance Standards Board (IAASB). We agree that the differences between the ASB's proposed standard and the IAASB's standard will not result in substantive differences in application. We are responding to the ASB's questions included in the explanatory memorandum accompanying the exposure draft. | Supportive |

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| | | | In addition, we have noted other revisions and edits that we believe will improve the final standard. | |
| 12 | Nodes\\general\general supportive | 13 - - Wipfli and Mind the GAAP | <p>We support the AICPA’s efforts to converge U.S. auditing standards with those promulgated by the International Auditing and Assurance Standards Board (IAASB) and understand the reasons for using the IAASB’s ISA 540 (Revised) as the starting point for Exposure Draft. However, this approach made it difficult for us to understand clearly what the Auditing Standards Board is proposing to change from current U.S. auditing standards. In the future, we would recommend that the Auditing Standards Board prepare a redlined document comparing the current and proposed auditing guidelines and/or a summary document identifying any significant changes from the current auditing guidance to that being proposed in the Exposure Draft.</p> <p>In addition, the background to the Exposure Draft indicates that the Auditing Standards Board monitored recent Public Company Accounting Oversight Board (PCAOB) projects in the area of auditing estimates. However, it is unclear to us how the Exposure Draft considered those recent PCAOB activities and what, if any, differences will remain with</p> | Supportive |

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| | | | PCAOB auditing standards if the Exposure Draft is adopted in its proposed form. Again, in future standard setting activities, we urge the Auditing Standards Board to include as part of the materials made available for comment a summary of any remaining differences between its proposals and extant PCAOB auditing standards. | |
| 13 | Nodes\\general\general supportive | 14 - NYSSCPA | General Comments We are generally supportive of the proposed SAS. | Supportive |
| 14 | Nodes\\general\general supportive | 18 - GT | We support the Board’s undertaking to enhance the auditing standard related o accounting estimates, and we agree with the Board’s approach to converge this standard with the corresponding international auditing standard. As accounting estimates become more prevalent and complex in financial statements, we believe it is important to have a generally consistent approach to auditing across various jurisdictions so that auditors are not challenged by different requirements for a single, global audit. | Supportive |

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| 15 | Nodes\\general\general supportive | 19 - EY | <p>As part of a global network of firms that uses one Global Audit Methodology (GAM) that is based on the International Standards on Auditing (ISAs), we support the ASBs efforts to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB).</p> <p>We believe the proposed SAS is generally in alignment with the Public Accounting Oversight Board (PCAOB) standards, which would reduce the risk of different conclusions being reached when audits are performed under PCAOB and AICPA standards. However, we recommend that the Board consider providing more guidance to address the use of specialists and third-party pricing information in auditing estimates.</p> | <p>Supportive</p> <p>See issue 7 in agenda item 8</p> |
| 16 | Nodes\\general\general supportive | 22 - TIC | <p>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.</p> | <p>Supportive</p> |

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| 17 | Nodes\\general\general supportive | 26 - BDO | We support of the Board’s overall strategy to converge AU-C section 540 with the International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures, and we appreciate the Board’s considerations of the amendments by the Public Company Accounting Oversight Board (PCAOB) to its standards for auditing accounting estimates and fair value measurements. | Supportive |
| 18 | Nodes\\general\general supportive with comments | 01 - TN State | On behalf of the Tennessee Department of Audit, Division of State Audit, we thank the Auditing Standards Board for the opportunity to comment on the Exposure Draft (ED), Auditing Accounting Estimates and Related Disclosures. We generally agree with the board’s proposals. In regard to the specific request for comments, our responses follow: | Supportive |
| 19 | Nodes\\general\general supportive with comments | 28 - KPMG | Further Consideration of Convergence with PCAOB AS 2501 Both the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting | See issue 7 in agenda item 8 |

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| | | | <p>Oversight Board (PCAOB) recently adopted new standards on auditing accounting estimates. Throughout their standard setting processes, both boards recognized that auditor challenges in this area are tied to inherent risk factors such as subjectivity, complexity and uncertainty and that audit response is to be appropriately designed depending on the assessed risk of material misstatement. We agree and further believe that the above-referenced inherent risk factors are not driven by the size of the entity or its status as a public or private company. For this reason, not only is convergence with the IAASB’s ISA 540 (Revised) important but further consideration of the PCAOB’s AS 2501 appears both necessary and desirable. Our specific suggestions in this regard are discussed throughout this letter.</p> | |
| | | | <p>Further Consideration of Impact of the Proposed Audit Evidence Standard on This Proposed Standard</p> | |
| | | | <p>Our comment letter on the Audit Evidence Exposure Draft provided our thoughts regarding how information, both internal and external, should be evaluated. While we did not object to the proposed definition of external information sources, including the related application material included in Appendix A, a number of our other comments on the proposed standard on audit evidence will likely affect the application material of this Exposure Draft. In particular, in our response to question 3 of the specific request for</p> | |
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| | | | comment below, we provide our reasons for requesting that the Board evaluate the need for more specific guidance related to auditors' use as audit evidence of pricing information from third-party sources, considering the guidance in Appendix A – Special Topics of AS 2501. | |
| | | | In addition, the Audit Evidence Exposure Draft indicates that the Board is considering whether to relocate content related to the auditor's use of the work of management's specialists to another AU-C section. While a specific section and amendments, if any, have not yet been exposed, we have identified certain requirements and application material regarding the work of management's specialists in this Exposure Draft that we believe require further consideration as part of the Board's work on both the Exposure Draft and the Audit Evidence Exposure Draft. | See issue 7 in agenda item 8 |
| 20 | Nodes\\general\general supportive with comments | 28 - KPMG | While we are generally supportive of the Proposed Standard as exposed, in addition to our responses to those questions posed by the Board, we respectfully request the Board's further consideration of whether further convergence with | See issue 7 in agenda item 8 |

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| | | | PCAOB Auditing Standards (AS) would benefit practitioners, and the interrelationship of this Exposure Draft with the Board’s Exposure Draft of the Proposed Standard, Audit Evidence (Audit Evidence Exposure Draft). | |
| 21 | Nodes\\Title | 19 - EY | We recommend the following edit to the title of the SAS: <u>Auditing Accounting Estimates, Including Fair Value Measurements</u> , and Related Disclosures | See issue 4 in agenda item 8 |

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| 22 | General | 29 - ABA | We are commenting on this Proposal due to the potential implications the final standard may have on audits of banks. Along with the recent auditing proposed auditing standard on audit evidence, the Proposal addresses key issues that banks will face from auditors as a result of the Current Expected Credit Loss (CECL) accounting standard for the measurement of credit losses. ^{1 2} Along with its impact on audit evidence, CECL changes the nature of the accounting estimate – now one that forecasts future credit events that do not conform to any market consensus – and will put to the test many of the estimation concepts discussed in the Proposal. The CECL allowance is expected to often be highly subjective and, therefore, subject to significant possible management bias. The range of reasonably possible CECL estimation outcomes will normally be multiples of materiality. It is through this lens that ABA views this Proposal | |

¹ The Financial Accounting Standards Board (FASB) issued the “Current Expected Credit Loss” accounting standard (Accounting Standards Update 2016-13) in June 2016 and is effective for SEC registrants on January 1, 2020.

² See the ABA comment letter to the Proposed Statement on Auditing Standards – Audit Evidence at <https://www.aba.com/advocacy/policy-analysis/comment-letter-to-aicpa-on-audit-evidence>

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| | | | <p>Based on the recent delay of the effective date of CECL for most companies, ABA believes this standard will apply mainly to audits starting in 2023. With that in mind, however, CECL implementation will be a long and costly process for smaller institutions, many of whom are in the midst of making investment decisions related to systems needed to support CECL processes. Conflicting messages coming from FASB, the banking agencies, and auditing and consulting firms, have many institutions hesitating in their implementation decisions. The final standard should provide some clarity on auditing expectations.</p> | |
| | | | <p>Specifically, the ASB should address how the final standard would address audits of smaller institutions. The nature and extent of the evidence smaller banks believe they will need to provide to their auditors will highly influence how they will configure not only their CECL estimate models but also the operational systems that feed into their models. Addressing smaller banks, therefore, should be a priority in an Accounting and Auditing Guide. However, just as with what has been proposed regarding “professional skepticism,” we believe this issue should also be directly integrated into future auditing standards, such as this one. This is a major point that was made in our comment letter related to the Audit Evidence proposal.</p> | <p>Task force to discuss with evidence task force. Proposed SAS is scalable based on complexity of estimate and not the size of the entity.</p> |

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| 23 | General | 30 - PWC | We support the Auditing Standards Board’s (ASB) objective of convergence with the International Auditing and Assurance Standards Board (IAASB)’s revised ISA 540, <i>Auditing Accounting Estimates</i> . In determining what revisions to AU-C section 540 are necessary in the context of the US environment, we also support the ASB’s consideration of the Public Company Accounting Oversight Board (PCAOB)’s AS 2501 (Revised), <i>Auditing Accounting Estimates, Including Fair Value Measurements</i> . These standards are intended to improve audit quality by strengthening how auditors evaluate the methods, assumptions, and data used by management in developing accounting estimates. | Supportive |
| | | | The proposed SAS will be applicable to a wide range of accounting estimates. We appreciate the ASB’s efforts to embed concepts related to scalability within the proposed SAS. We encourage the ASB to consider, based on feedback to the exposure draft, whether additional guidance is necessary to demonstrate how the proposed SAS would be expected to apply to less complex estimates. | Supportive with comments |
| | | | We also believe it will be important for the AICPA to develop a process to make timely updates to the various Accounting and Auditing Guides that contain incremental guidance on accounting estimates to ensure the guides are consistent with the proposed SAS. | Supportive with comments |

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| | | | <p><i>Consideration of PCAOB standard-setting activities</i></p> <p>We appreciate the ASB’s consideration of the PCAOB’s changes to its standard addressing estimates in developing the proposed SAS. In revising its estimates standard, the PCAOB concurrently amended other standards to better address the use of the work of company specialists and auditor specialists. We encourage the ASB to consider whether similar enhancements to its suite of standards would be appropriate.</p> | |