



## Agenda Item 2B

### Auditing Accounting Estimates — Comment Letter Summary by Paragraph

The ASB received 30 comment letters as follows:

| <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)     |
| 13                | WIPFLI/Mind the GAAP                            |

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| <i>Letter No.</i> | <i>Affiliation</i>                         |
|-------------------|--|
| 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  |

**Key: Shaded comments are those comments that are also included in agenda item 2C**

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| # | <i>Paragraph Reference</i> | <i>Commenter</i>         | <i>Comment</i>  | <i>Task force response</i>                                  |
|---|----------------------------|--------------------------|---|---|
| 1 | Nodes\01\fn<br>1           | 07- WA state<br>auditors | Footnote 1 is unique to this standard and implies that the standard is expected to be used by uninformed readers out of context of the rest of standards. If the AICPA is concerned about this possibility, we suggest a uniform preamble, note or disclaimer to be added to all published AU-C sections, rather than a footnote in only one of the standards.  | This is AICPA style and is in all new SASs. No change made  |
| 2 | Nodes\01\fn<br>1           | 17 - NSAA_               | Paragraph 1 (footnote 1)<br><br>This footnote is unique to this standard and implies that the standard is expected to be used by uninformed readers out of context of the rest of standards. If the ASB is concerned about this possibility, we suggest a uniform preamble, note or disclaimer to be added to all published AU-C sections, rather than a footnote in only one of the standards.   | This is AICPA style and is in all new SASs. No change made. |
| 3 | Nodes\03                   | 07- WA state             | As discussed in paragraph 3, the degree to which an accounting estimate is subject to estimation uncertainty may be very low for certain accounting estimates. Paragraph 3 goes on to state that the nature, timing, and extent of the risk assessment and further audit procedures required by this SAS will vary in relation to the estimation uncertainty and assessment of related risks to material misstatement. However, this does not appear to be reflected in the |   |

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| # | Paragraph Reference | Commenter | Comment  | Task force response         |
|---|---------------------|-----------|--|-----------------------------|
|   |                     |           | <p>requirements of the standard, which appears to reflect the presumption of high uncertainty. In order to allow for variability, we would suggest:</p>  | See response to comment #53 |
|   |                     |           | <p>a. Adding the words "...as needed to respond to estimation uncertainty and the assessed risks of material misstatement" to precede the list of required procedures in paragraphs 21-25. While all 16 of the procedures described in these paragraphs may be relevant to an accounting estimate with high estimation uncertainty, subjectivity and complexity at a large organization, not all of the procedures may be relevant or necessary for every type of accounting estimate or situation (e.g. a straightforward estimate of the useful life of assets or an allowance for doubtful accounts at a smaller organization).</p> |                             |
|   |                     |           | <p>b. Limiting the understanding of internal control over estimates required by paragraph 12.e-j to only those estimates that are deemed significant to the financial statements (consistent with AU-C 315 paragraphs 13 and 21).</p>  | See response in comment #25 |
|   |                     |           | <p>We agree that risk assessment procedures required by paragraph 12.a-d would be necessary to assess the relevance or significance of estimates. However, procedures to understand the controls would only be needed to the extent that estimates give rise to risks of material misstatement, consistent with AU-C 315 paragraph 27.a.</p>   |                             |
|   |                     |           |  |                             |
|   |                     |           |  |                             |

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| # | Paragraph Reference | Commenter    | Comment   | Task force response  |
|---|---------------------|--------------|---|--|
|   |                     |              | <p>c. Similarly limiting the requirement of paragraph 13 for a retrospective review to only those estimates that are deemed significant to the financial statements. Alternatively, this requirement for a retrospective review may be more appropriately identified as a response to assessed risks of material misstatement when performed by the auditor, or as an aspect of the entity’s internal controls to consider if performed as a risk assessment procedure. Currently, there appears to be an inconsistency between requirements of AU-C 240, which require a retrospective review as a substantive procedure only for “significant accounting estimates,” and the proposed requirements, which require a retrospective review as a risk assessment procedure for all accounting estimates.</p> | See response to comment #44  |
| 4 | Nodes\03            | 14 - NYSSCPA | <p>Generally, we noted synchronization between the proposed SAS and the other AU-C sections, except as set forth in (a)-(g) below where we offer suggestions to strengthen consistency.</p> <p>(a) The proposed SAS states in part in paragraph 3:<br/> “For certain accounting estimates, estimation uncertainty may be very low, based on their nature, and the complexity and subjectivity involved in making them may also be very low. For such accounting estimates, the risk assessment procedures and further audit procedures required by this proposed SAS would not be expected to be extensive.”</p>  | <p>[Same as comment #8B-22 in agenda item 2C]</p> <p>The comment does not propose any changes to be made to the proposed SAS and the TF believes no changes are necessary.</p> |

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| # | Paragraph Reference | Commenter    | Comment  | Task force response  |
|---|---------------------|--------------|--|--|
|   |                     |              | <p>The proposed SAS suggests that the complexity and subjectivity of an estimate should be assessed separately to have a high or low level of “<i>uncertainty</i>.” We believe that the degree of uncertainty versus reliability should be considered an integral component consideration in the assessment of inherent risk of material misstatement.</p> <p>For example, depreciation expense, which is based on an estimated useful life with a low degree of uncertainty might nevertheless be evaluated to have a high inherent risk. Contrast that with a complex derivative instrument, for which the valuation has a high level of uncertainty and ordinarily should be subject to multiple controls to assure management that the estimate is done properly, thus reducing the combined risk of material misstatement to low.</p> |  |
| 5 | Nodes\03            | 14 - NYSSCPA | <p>Paragraph 3 of the proposed SAS refers auditors to paragraph A7 for guidance on <b>scalability</b>. We suggest that the proposed SAS provide enhanced guidance when discussing scalability in paragraph A7, A21, A22 and elsewhere in the proposed SAS wherever the term is mentioned.</p>  | <p>The TF noted that examples contained in audit guides to aid in implementation may be a better option. The proposed SAS creates the framework. No change proposed.</p> <p>[same as comment #8B-22 in agenda item 2C]</p> |

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| # | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i>   |
|---|----------------------------|------------------|--|--|
| 6 | Nodes\03                   | 17 - NSAA        | <p>Paragraph 3</p> <p>As discussed in this paragraph, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially. This paragraph goes on to state that for some accounting estimates, estimation uncertainty may be very low, while for others it may be very high. However, this does not appear to be reflected in the requirements of the standard, which appears to reflect the presumption of high uncertainty. In order to allow for variability, we suggest the following:</p> <ul style="list-style-type: none"> <li>a. [included at paragraph 21]</li> <li>b. [included at paragraph 12]</li> <li>c. [included at paragraph 13]</li> </ul> | See separate paragraphs for details (pars. 12, 13, and 21)   |
| 7 | Nodes\03                   | 19 - EY          | <p>We believe that the key concepts of the proposed SAS could be further enhanced by reiterating the point made in paragraph 1 that a fair value measurement is a form of accounting estimate. This could be accomplished by making the following amendment to the first sentence of proposed paragraph 3:</p> <p>“Although this proposed SAS applies to all accounting estimates, <b><i>including fair value measurements</i></b>, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially.”</p>  | At the January 2020 ASB meeting the ASB agreed that additional mention of “fair value measurements” was unnecessary. The ASB believes the scope section adequately notes that FV measurements are included. No change made. [Same as comment #8B-24] |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i>         | <i>Comment</i>   | <i>Task force response</i>  |
|----|----------------------------|--------------------------|--|---|
| 8  | Nodes\04                   | 06 - TXCPA<br>PSC        | In paragraph 4, the use of the word “spectrum” in relation to inherent risk seems strange. The committee prefers the more common phrase of “range of inherent risk.” The standard does not appear to contain any new auditing requirements.  | TF believes the term should align with ISA 315 (Revised) terminology. The TF believes it would be confusing to use different words for the same concept. No change proposed.<br><br>[Same comment #8B-18 in agenda item 2C] |
| 9  | Nodes\04                   | 07- WA state<br>auditors | We found some of this content to be helpful. However, we found that duplication of the requirements of other AU-C sections was confusing. For example, when paragraph 4 states “this proposed SAS requires inherent risk and control risk to be assessed separately” it calls into question whether AU-C 330.07 somehow does not require this already. We believe this assessment is already required; therefore, its inclusion in this standard is unnecessary. | At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No change proposed.  |
| 10 | Nodes\04                   | 11 - Deloitte            | Further, we believe that the paragraphs explain the interplay between the proposed SAS and other AU-C sections in most cases; however, we recommend the following edit noted in bold underline to paragraph 4 within the Key Concepts of This Proposed SAS section to emphasize from the outset that the assessment of the risk of material misstatement at the relevant assertion level is not separate to the requirements in                                  | See proposed change to paragraph 4.<br><br>Same as comment #8B-21 in agenda item 2C.  |

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|----|----------------------------|-----------------------|---|--|
|    |                            |                       | <p>AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C section 315):</p> <p>4. For purposes of assessing the risk of material misstatement at the relevant assertion level for accounting estimates, <b>as required by AU-C section 315</b>, this proposed SAS requires inherent risk and control risk to be assessed separately. . .</p>   |  |
| 11 | Nodes\\04                  | 15 - Ill Society CPAs | <p>We believe the scope section of the exposure draft adequately explains the relationship between the proposed SAS and most other sections of existing auditing standards. However, paragraph 4 uses the term “spectrum of inherent risk,” and we believe it would be beneficial to provide more clarity as to application of this concept, including where different types of estimates fall within the spectrum. We would also like to see how this evaluation of risk is integrated into the existing risk assessment standards in Section 315.</p> | <p>At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No change proposed.<br/>[Same as comment #8B-23 in agenda item 2C]</p> |
| 12 | Nodes\\04                  | 20 - Eide Bailly      | <p>In paragraphs .04, .A66, .A67, the conforming amendments to AU-C 200 on page 83, and other places throughout the proposal the concept of risk assessment is discussed. Generally, we believe it is confusing to include new risk</p>   | <p>At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment</p>  |

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|----|---------------------|-----------------------|---|--|
|    |                     |                       | assessment requirements, such as the requirement to separately assess inherent risk and control risk and introducing the concept of “a spectrum of inherent risk”, outside of the existing risk assessment standards. We believe that if there are specific risk assessment concepts that need to be addressed or updated, such concepts should be addressed with amendments to the risk assessment standards.  | guidance within the proposed SAS. No change proposed.  |
| 13 | Nodes\05            | 07- WA state auditors | Consider elimination of repetitious material denoted by footnotes 4-13, 15-20, 34, 39-40, 58-59, and 62.  | At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No change made.   |
| 14 | Nodes\07            | 10 - RSM US LLP       | <p>We believe paragraph 7 should be revised as follows to remind auditors that the exercise of professional skepticism is required in all circumstances (proposed additions are shown in bold font and proposed deletions are struck through):</p> <p style="padding-left: 40px;">The exercise of professional skepticism in relation to accounting estimates is affected by the auditor’s consideration of inherent risk factors, <del>and its importance.</del> <b>The extent to which professional skepticism is exercised</b> increases when accounting estimates are subject to a greater degree of estimation uncertainty or are affected to a greater degree by complexity, subjectivity, or other inherent risk factors. Similarly, the exercise of professional skepticism, <b>which always is required, is even more critical</b></p> | <p>The task force recommends not making unnecessary wording changes to the proposed SAS due to wording preferences. This is keeping with the structure of the proposed SAS.</p> <p>No change made.</p> <p>[same as comment #8B-20 in agenda item 2C]</p> |

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|----|----------------------------|------------------|---|---|
|    |                            |                  | important when there is greater susceptibility to misstatement due to management bias or fraud. (Ref: par. A11)   |   |
| 15 | Nodes\07                   | 14 - NYSSCPA     | The subject of <b>professional skepticism</b> is particularly critical to auditing accounting estimates. We suggest that professional skepticism be more prominently placed directly in the body of the final standard and the discussion in paragraphs 7 and A11 be enhanced.  | Discussed at the January 2020 ASB meeting. The ASB believes that much thought went into the crafting of the use of professional skepticism in ISA 540 (Revised) and directed the task force to retain the structure of the proposed SAS. See proposed changes to paragraph 7 [Also in comment #8B-22 in agenda item 2C] |
| 16 | Nodes\08                   | 14 - NYSSCPA     | <p><b>Other Comments</b></p> <p>For your consideration we offer the following additional comments:</p> <p>(a) In the <b>Evaluation of the estimates</b> section (second bullet) on p. 11 of the ED, the ED correctly identifies – in broad terms – the three elements of an estimate as the selection of the method, assumptions, and data.</p> | The use of “data” is consistent with the ISAs. To change this term to “verifiable data” would cause unnecessary differences with the ISA and  |

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|----|---------------------|--------------|---|--|
|    |                     |              | <p>We offer that the term “data,” as referred to in paragraphs 8, 12h.ii.(c) and A45 of the proposed SAS (et seq, as applicable) should be characterized as “verifiable data.” We are offering this suggestion because data can be produced by any number of sources and can be placed out of context. While “data” is simply a set of values – numeric or otherwise – “information”, as some respondents noted in the response to the exposure draft on audit evidence, is data in context. To that extent, the term “data” simply means “values” without any context or verifiability. To evaluate the accounting estimate properly, we suggest that the term “data” be revised to “verifiable data,” or even more narrowly “verifiable information,” (i.e., data in context). We are concerned that if the term is left unchanged it may provide an opening for accepting any value as part of the estimation model.</p> | <p>the PCAOB. No change made.</p>  |
| 17 | Nodes\08            | 14 - NYSSCPA | <p>Paragraph 8 of the proposed SAS defines <b>reasonable</b> with words that appear to be synonymous with “materially correct” or “not materially misstated” but the term, as defined, and used in paragraph 10, is limited more appropriately to the applicability of the accounting method to the circumstances, and the judgments made, as explained in</p>  | <p>Discussed at the January ASB meeting. The ASB supported retaining the term “reasonable” because it is a term that is used in the GAAS. To introduce a new</p> |

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|----|----------------------------|------------------|---|---|
|    |                            |                  | <p>paragraph A13, but without regard to the accuracy of the underlying data.</p> <p>We suggest that the proposed SAS be revised to replace the term “reasonable” in paragraph 8, along with related paragraphs, with a term that is more precise, such as “materially correct” or “not materially misstated.”</p>   | <p>term may have unintended consequences in applying the standard. No change proposed. [Same as comment #8B-22 of Agenda item 2C]</p>   |
| 18 | Nodes\08                   | 14 - NYSSCPA     | <p>Paragraph 8 of the proposed SAS guides auditors with respect to the methodology that is applied by management to arrive at an accounting estimate states, in part:</p> <p>“For purposes of this proposed SAS, reasonable, in the context of the applicable financial reporting framework, means that the relevant requirements of the applicable financial reporting framework have been applied appropriately, including those that address the following: (Ref: paragraph A12–A13 and A140–A145)</p> <ul style="list-style-type: none"> <li>· The development of the accounting estimate, including the <i>selection of the method</i>, assumptions, and data in view of the nature of the accounting estimate and the facts and circumstances of the entity [<i>emphasis added</i>] ...”</li> </ul> | <p>TF believes no change is necessary because the concept of consistency is embedded in the accounting framework. No change proposed.</p> <p>[Same as comment #8B-22 in agenda item 2C]</p> |

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|----|----------------------------|-------------------|--|--|
|    |                            |                   | The selection of method is relevant to any evaluation of an estimate, and we suggest that the final standard indicate that once an entity selects a method, the auditor should determine whether the entity has applied that method consistently based on the applicable financial reporting framework.  |  |
| 19 | Nodes\\09                  | 06 - TXCPA<br>PSC | Response: The committee thinks that the use of “ending on or after December 15, 2022” may result in practitioners not adequately considering the proposed standard when conducting audit planning for the year ending December 31, 2022. The committee thinks that the effective date should be “ending on or after December 15, 2021.”  | Same as comment #8D-28 in agenda item 2C   |
| 20 | Nodes\\10                  | 16 - Virginia     | In multiple instances within the standard, it indicates that the standard requires the auditor to evaluate “[...] whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework <b>or are misstated.</b> ” However, the objective contained in paragraph 10, excludes the phrase “or are misstated.” We recommend the ASB be consistent throughout the standard when discussing the requirements/objective of the proposed SAS. | Task force notes that the objective of the proposed SAS goes to whether the estimate is reasonable. This is consistent with the ISA and the construct of the proposed SAS. No change proposed to avoid unnecessary differences with the ISA. |

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|----------|----------------------------|---------------------|--|---|
| 21       | Nodes\\10                  | 17 - NSAA           | <p>Paragraph 10 and others</p> <p>In multiple instances within the standard, it indicates that the standard requires the auditor to evaluate “[...] whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated.” However, the objective contained in paragraph 10, excludes the phrase “or are misstated.” We recommend the ASB be consistent throughout the standard when discussing the requirements/objective of the proposed SAS.</p> | Same response as comment #20  |
| 22       | Nodes\\11                  | 01 - TN State Audit | <p>However, “point estimate” could be clarified in the definition of the auditor’s or management’s point estimate. How is this different than just an “estimate?” Why is the modifier needed?</p>  | TF believes the definitions in paragraph 11 are clear and the point estimate definition should be well understood. No changes proposed. [Same comment #8B-17 in agenda item 2C] |

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|----|---------------------|-----------|--|--|
| 23 | Nodes\11            | 19 - EY   | <p>Consistent with the PCAOB’s definition of an accounting estimate, we also recommend the following addition to the proposed definition of an accounting estimate in paragraph 11:</p> <p>“Accounting estimate. A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty. <i>A fair value measurement is a form of accounting estimate.</i>”</p> <p>We also recommend that the definition of an accounting estimate should be clarified to explain that an estimate may drive a decision not to recognize amounts in the financial statements. That is, we believe the definition should explicitly address estimates an entity uses in an analysis such as an asset impairment analysis, even if the entity does not recognize an impairment charge that relates to the estimates.</p> | <p>TF believes that paragraph A14 adequately addresses that FV measurements are included. TF is concerned that including such a statement in the requirement would narrow the definition and would unnecessarily highlight one example of an estimate. Further, the TF believes paragraph 1 clearly scopes fv estimates as part of this SAS. No change made.</p> <p>(Same as comment #8B-24 in agenda item 2C)</p> |

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|----|----------------------------|------------------|---|--|
|    |                            |                  |   |  |
| 24 | Nodes\11                   | 20 - Eide Bailly | <p>In paragraph .01, fair value is specifically referenced as an accounting estimate. However, in paragraph .11, fair value is not referenced in the definition of an accounting estimate (although it is mentioned in the application guidance in A14). If the intent is for fair value measurements to be included within the definition of an accounting estimate within the scope of this standard, we believe this should be more clearly communicated in the standard. Similarly, if that this not the intent and/or the Board believes certain fair value measurements, but not all, are considered to be estimates, that should be more clearly addressed, most likely in application material.</p> | <p>TF believes that paragraph A14 adequately addresses that FV measurements are included. TF is concerned that including such a statement in the requirement would narrow the definition and would unnecessarily highlight one example of an estimate. Further, the TF believes paragraph 1 clearly scopes fv estimates as part of this SAS. No change made.</p> |
| 25 | Nodes\12                   | 07- WA state     | <p>As discussed in paragraph 3, the degree to which an accounting estimate is subject to estimation uncertainty may be very low for certain accounting estimates. Paragraph 3 goes on to state that the nature, timing, and extent of the risk</p>  |  |

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| #  | Paragraph Reference | Commenter     | Comment  | Task force response   |
|----|---------------------|---------------|--|---|
|    |                     |               | <p>assessment and further audit procedures required by this SAS will vary in relation to the estimation uncertainty and assessment of related risks to material misstatement. However, this does not appear to be reflected in the requirements of the standard, which appears to reflect the presumption of high uncertainty. In order to allow for variability, we would suggest:</p> <p>a. [omitted here – included at paragraph 21]<br/>                     b. Limiting the understanding of internal control over estimates required by paragraph 12.e-j to only those estimates that are deemed significant to the financial statements (consistent with AU-C 315 paragraphs 13 and 21).</p> <p>We agree that risk assessment procedures required by paragraph 12.a-d would be necessary to assess the relevance or significance of estimates. However, procedures to understand the controls would only be needed to the extent that estimates give rise to risks of material misstatement, consistent with AU-C 315 paragraph 27.a.</p> | <p>The assessment of whether a risk is a significant risk is specified in paragraph 16 of the proposed SAS. In keeping with AU-C 315, the auditor would first gain an understanding of the risks (before determining significant risks). Therefore no change proposed to keep alignment with 315.</p> |
| 26 | Nodes\12            | 16 - Virginia | <p>The Risk Assessment Procedures and Related Activities Section (Paragraphs 12–14) discusses the risk assessment procedures before discussing the engagement team needed to perform the procedures. We believe the guidance would be</p>  | <p>TF noted that there was much debate at the IAASB about placement. TF believes the auditor needs to</p>   |

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|    |                     |                  | more intuitive for the user if it was organized in the order the considerations are likely to occur. Therefore, we recommend the ASB move Paragraph 14 to the beginning of this section.  | obtain understanding to determine whether an expert is needed. No change made to avoid unnecessary differences from the ISA. |
| 27 | Nodes\12            | 17 - NSAA        | (b) Limiting the understanding of internal control over estimates required by paragraph 12.e-j to only those estimates that are deemed significant to the financial statements (consistent with AU-C 315 paragraphs 13 and 21). We agree that risk assessment procedures required by paragraph 12.a-d would be necessary to assess the relevance or significance of estimates. However, procedures to understand the controls would only be needed to the extent that estimates give rise to risks of material misstatement, consistent with AU-C 315 paragraph 27.a. | Same as comment #25  |
| 28 | Nodes\12            | 20 - Eide Bailly | Starting in paragraph .12, and throughout the proposal, there is a discussion of the auditor’s requirement to obtain an understanding of the control environment and operating effectiveness of controls related to estimates. For many   | TF recommends the risk assessment task force (AU-C 315 ) consider this comment as it would apply                             |

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|----|----------------------------|---------------------|--|---|
|    |                            |                     | entities, estimates are calculated annually, resulting in a more limited control environment throughout the year and more controls at year end. In these situations, it is difficult to evaluate the controls during the planning phase because the controls are not evident until the closing process. We believe the proposal should acknowledge this common practice and provide application guidance for this type of control environment.   | to more than just AU-C 540 and would be more appropriate to address in AU-C 315. TF does not want to undermine AU-C 315 by including something here. No change made to 540. |
| 29 | Nodes\12                   | 22 - TIC            | <p>Management Bias</p> <p>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.</p>   | Management bias is included in the application material (A23). No change.   |
| 30 | Nodes\12\12d               | 01 - TN State Audit | In ¶A29 (in particular, the heading), we believe additional guidance is needed about the intent of “expects to be included in the financial statements.” Our concern is whether the expectation goes beyond the minimum requirements of an applicable financial reporting framework or regulatory framework. In other words, on what is the expectation based? If the intent is that other disclosures beyond the minimum requirements of the applicable financial reporting framework might be needed to ensure a fair presentation, this | <p>No change made.</p> <p>TF believes the requirements in paragraph 12 provide sufficient context for the application material in par A29.</p>                              |

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|----|----------------------------|---------------------|--|--|
|    |                            |                     | should be added as an explanation. We want to ensure the practitioner explicitly understands what his/her responsibilities are in order to comply with the SAS. This clarification might be best in ¶12d or its introduction paragraph.  |  |
| 31 | Nodes\12\12d               | 16 - Virginia       | Paragraph 12d should reference paragraph 12a–c instead of paragraph 13a–c.   | Agreed. Change made.   |
| 32 | Nodes\12\12d               | 17 - NSAA           | Paragraph 12d – We believe the reference to paragraph 13a-c should be to paragraph 12a-c.  | Agreed. Change made.   |
| 33 | Nodes\12\12d               | 18 - GT             | We believe the reference at the end of this bullet, which currently refers to paragraph 13a-c, was intended to refer to paragraph 12a-c and therefore recommend updating it accordingly.   | Agreed. Change made.   |
| 34 | Nodes\12\12f               | 01 - TN State Audit | In ¶12f and throughout the proposed SAS, the phrase “specialized skills or knowledge” is used. We suggest that using “specialized skills, knowledge, or experience” (SKE) might be a more comprehensive and consistent notion to use because it would be consistent with SKE utilized in relation to non-audit services with the Government Accountability Office’s Government Auditing Standards (i.e., Yellow Book) and the AICPA’s Code of Professional Conduct. We believe “skills and knowledge” alone is too limiting. | TF believes such a change would cause unnecessary differences with the ISAs and with the specialists standard. No change made. |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>   |
|----|----------------------------|------------------|---|--|
| 35 | Nodes\12\12f               | 16 - Virginia    | Paragraphs 12f and A33 discuss the use of management’s specialists; however, the SAS does not provide guidance on the degree of reliance the auditor may place on their judgements in evaluating the appropriateness of estimates. The ASB should provide a reference in paragraph A33 to paragraph .08 of AU-C section 500, Audit Evidence, to direct the auditor to the relevant guidance in developing further audit procedures regarding management specialists.                                  | See footnote added to paragraph A33  |
| 36 | Nodes\12\12f               | 17 - NSAA        | Paragraphs 12f and A33<br><br>These paragraphs discuss the use of management’s specialists; however, the proposed SAS does not provide guidance on the degree of reliance the auditor may place on their judgements in evaluating the appropriateness of estimates. The ASB should provide a reference in paragraph A33 to paragraph .08 of AU-C section 500, Audit Evidence, to direct the auditor to the relevant guidance in developing further audit procedures regarding management specialists. | Same as previous comment.  |
| 37 | Nodes\12\12h               | 28 - KPMG        | [12] h. The entity’s information system as it relates to accounting estimates, including the following:<br><br>i. The classes of transactions, events, and conditions that are significant to the financial statements and that give rise to  | Response does not recommended a change to this paragraph. No changes made. |

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| # | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i> |
|---|----------------------------|------------------|---|----------------------------|
|   |                            |                  | <p>the need for or changes in accounting estimates and related disclosures (Ref: par. A20 and A36)</p> <p>ii. For such accounting estimates and related disclosures, how management</p> <p>(1) identifies the relevant methods, <b>assumptions</b>, or sources of data, and the need for changes in them, that are appropriate in the context of the applicable financial reporting framework, including how management (Ref: par. A37– A38)</p> <p>(a) selects or designs, and applies, the methods used, including the use of models (Ref: par. A39–A40)</p> <p>(b) selects the assumptions to be used, including consideration of alternatives, and identifies <b>significant assumptions</b> (Ref: par. A41–A44)</p> <p>(c) selects the data to be used (Ref: par. A45)</p> <p>Comment: It is clear that the intent of risk assessment is to first identify all assumptions and then understand how management identifies those assumptions that are significant.</p> <p>Recommendation: No change.</p> |                            |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>  |
|----|----------------------------|------------------|---|---|
| 38 | Nodes\12\12hii(2)          | 16 - Virginia    | Paragraph 12h(ii)(2) should consider removing “including” or “by.”  | Proposed changes would change the intent of the requirement. No change made.                            |
| 39 | Nodes\12\12hii(2)          | 17 - NSAA        | Paragraph 12h(ii)(2) – we suggest removing “including” or “by”.   | Removed “by”  |
| 40 | Nodes\12\12hii(c)          | 14 - NYSSCPA     | <p><b>Other Comments</b></p> <p>For your consideration we offer the following additional comments:</p> <p>(a) In the <b>Evaluation of the estimates</b> section (second bullet) on p. 11 of the ED, the ED correctly identifies – in broad terms – the three elements of an estimate as the selection of the method, assumptions, and data.</p> <p>We offer that the term “data,” as referred to in paragraphs 8, 12h.ii.(c) and A45 of the proposed SAS (et seq, as applicable) should be characterized as “verifiable data.” We are offering this suggestion because data can be produced by any number of sources and can be placed out of context. While “data” is simply a set of values –</p> | <p>See comment #16 in this file for response.</p> <p>Comment also included with paragraph 8 and A45</p> |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>  |
|----|----------------------------|------------------|---|---|
|    |                            |                  | numeric or otherwise – “information”, as some respondents noted in the response to the exposure draft on audit evidence, is data in context. To that extent, the term “data” simply means “values” without any context or verifiability. To evaluate the accounting estimate properly, we suggest that the term “data” be revised to “verifiable data,” or even more narrowly “verifiable information,” (i.e., data in context). We are concerned that if the term is left unchanged it may provide an opening for accepting any value as part of the estimation model. |   |
| 41 | Nodes\12\12i               | 12 - GAO         | Paragraph 12i should refer to paragraph 12h(ii) rather than 13h(ii).  | Agreed. Change made.  |
| 42 | Nodes\12\12i               | 16 - Virginia    | Paragraph 12i should reference paragraph 12h(ii) instead of 13h(ii).  | Agreed. Change made   |
| 43 | Nodes\12\12i               | 17 - NSAA        | Paragraph 12i – We believe the reference to paragraph 13.h(ii) should be to paragraph 12.h(ii).   | Agreed. Change made.  |
| 44 | Nodes\13                   | 07- WA state     | As discussed in paragraph 3, the degree to which an accounting estimate is subject to estimation uncertainty may be very low for certain accounting estimates. Paragraph 3 goes on to state that the nature, timing, and extent of the risk   | No change proposed. Retrospective review to be discussed by the ASB |

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| # | Paragraph Reference | Commenter | Comment  | Task force response |
|---|---------------------|-----------|--|---------------------|
|   |                     |           | <p>assessment and further audit procedures required by this SAS will vary in relation to the estimation uncertainty and assessment of related risks to material misstatement. However, this does not appear to be reflected in the requirements of the standard, which appears to reflect the presumption of high uncertainty. In order to allow for variability, we would suggest:</p> <ul style="list-style-type: none"> <li>a. [excluded here – included at paragraph 21]</li> <li>b. [excluded here – included at paragraph 12]</li> <li>c. Similarly limiting the requirement of paragraph 13 for a retrospective review to only those estimates that are deemed significant to the financial statements. Alternatively, this requirement for a retrospective review may be more appropriately identified as a response to assessed risks of material misstatement when performed by the auditor, or as an aspect of the entity’s internal controls to consider if performed as a risk assessment procedure. Currently, there appears to be an inconsistency between requirements of AU-C 240, which require a retrospective review as a substantive procedure only for “significant accounting estimates,” and the proposed requirements, which require a retrospective review as a risk assessment procedure for all accounting estimates.</li> </ul> |                     |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>  |
|----|----------------------------|------------------|---|---|
| 45 | Nodes\\13                  | 17 - NSAA        | (c) Similarly limiting the requirement of paragraph 13 for a retrospective review to only those estimates that are deemed significant to the financial statements. Alternatively, this requirement for a retrospective review may be more appropriately identified as a response to assessed risks of material misstatement when performed by the auditor, or as an aspect of the entity’s internal controls to consider if performed as a risk assessment procedure. Currently, there appears to be an inconsistency between requirements of AU-C 240, which require a retrospective review as a substantive procedure only for “significant accounting estimates,” and the proposed requirements, which require a retrospective review as a risk assessment procedure for all accounting estimates. | Same as previous response   |
| 46 | Nodes\\13                  | 20 - Eide Bailly | Paragraph .13 – we believe the term “retrospective review” should be introduced in paragraph .13 rather than only included in paragraph A56. We believe this is a common and significant term in practice and should be introduced in the standard itself.  | TF believes there is no need to include the term “retrospective review” in the requirement. TF preference is to retain in application material. |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i>  |
|----|----------------------------|------------------|--|---|
| 47 | Nodes\13                   | 20 - Eide Bailly | <p>Paragraph .A58, in relation to retrospective reviews, states that “As a practical matter, the auditor’s review of previous accounting estimates as a risk assessment procedure in accordance with this proposed SAS may be carried out in conjunction with the review required by AU-C section 240.” We do not believe this is the Board’s intent; however, this sentence appears to allow the only retrospective review to be completed along with the substantive testing procedures rather than requiring a preliminary retrospective review as a risk assessment procedure as prescribed in paragraph .13. We believe paragraph .A58 should be revised to not conflict with paragraph .13. We believe that paragraph .A53 on page 88 provides a good example of how the concepts of retrospective review could be addressed in paragraphs .13 and .A56.</p> | <p>No change made.</p> <p>TF noted that this is a difficult area and cannot come up with a way to say this any clearer and therefore did not want to create unnecessary differences from ISA 540 (Revised).</p> |
|    |                            |                  |  |   |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i> |
|----|----------------------------|------------------|--|----------------------------|
| 48 | Nodes\13                   | 28 - KPMG        | <p><b><i>Retrospective review</i></b></p> <p>Paragraph 13 of Audit Evidence Exposure Draft requires a review of the outcome of previous accounting estimates or, when applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. While we acknowledge that the requirement includes consideration of the characteristics of the estimate in determining the nature and extent of the review, we believe that both the requirement and the related application material do not recognize that, for some estimates, a retrospective review may not be necessary, appropriate or, in fact, possible.</p> <p>We agree that reviewing accounting estimates for consistent application of the relevant methods, assumptions and data, and to identify circumstances that may require changes in these elements of an estimate is an important aspect of the inherent risk assessment. However, a retrospective review may not be necessary to achieve these objectives in all circumstances. For example, fair value measurements based on level 1 and some level 2 inputs by their nature do not</p> | No change made.            |

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| # | Paragraph Reference | Commenter | Comment   | Task force response |
|---|---------------------|-----------|---|---------------------|
|   |                     |           | <p>involve management judgment and hence a retrospective review of these estimates is unlikely to benefit the auditor’s risk assessment. Furthermore, it is not clear what exactly a retrospective review for these estimates would entail. We find that the PCAOB’s release text to the new AS 2501 adequately addresses the above-discussed concerns when providing rationale for a much narrower scope of the PCAOB’s retrospective review requirement:</p> <p><i>“After consideration of comments, the amendment to AS 2401.64 was revised to further clarify that the accounting estimates selected for testing should be those for which there is an assessed fraud risk. The scope of the retrospective review, as amended, is better aligned with the new standard and focuses the auditor on accounting estimates already identified through the risk assessment process as being susceptible to material misstatement due to fraud.</i></p> <p><i>A separate requirement for performing a retrospective review is not necessary in the new standard as the requirement in AS 2401 would achieve the same objective. Further, for some estimates, the outcome of the estimate may not be known within a reporting period to facilitate such a review. Similarly, requiring a review over multi-year period would not be feasible for some estimates. Obtaining an understanding of the company's process for developing an estimate would necessarily provide information about the company's ability to make the estimate. In addition, the new standard requires the auditor to evaluate whether the company has a reasonable basis for significant assumptions used in accounting estimates.”</i></p> |                     |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i>   |
|----|----------------------------|------------------|--|--|
|    |                            |                  | <p>The PCAOB acknowledged that the amended requirement in AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i> is not unlike what is included in ISA 540 (Revised) or AU-C 540, although the PCAOB’s requirement is more direct in its relation to fraud.</p> <p>We believe that the concept of a retrospective review beyond consideration of fraud risk factors is not well understood. Without more guidance than what is provided in application paragraphs A56-A61 of the Proposed Standard, we don’t see the benefit to the requirement beyond what is already required by AU-C 240. And, as indicated above, performance of a retrospective review may be impractical or impossible for certain estimates.</p> |  |
| 49 | Nodes\\14                  | 17 - NSAA        | <p>Paragraphs 12-14</p> <p>The Risk Assessment Procedures and Related Activities Section discusses the risk assessment procedures before discussing the engagement team needed to perform the procedures. We believe the guidance would be more intuitive for the user if it was organized in the order the considerations are likely to occur. Therefore, we recommend the ASB move paragraph 14 to the beginning of this section.</p>  | <p>Same as comment #26.</p> <p>TF does not support moving the paragraph.</p> |

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| #  | Paragraph Reference | Commenter    | Comment  | Task force response   |
|----|---------------------|--------------|--|---|
| 50 | Nodes\15            | 14 - NYSSCPA | <p>Although the proposed requirement for a <b>separate assessment of inherent and control risks</b> is not specifically mentioned in paragraphs 2-9 of the proposed SAS, we believe this comment relates directly to the substance of Question 1. Both page 9 of the ED and paragraph 15 of the proposed SAS state that the proposed SAS would invariably require separate assessments of inherent and control risk for accounting estimates. In support of that proposed requirement, reference is made to AU-C 315.26-.27. However, separate assessments are not required under generally accepted auditing standards (GAAS) in any other audit application except to the extent necessary to identify a "significant risk" as discussed in AU-C 315.28-.29, and effectively defined there as one that requires "special audit consideration." AU-C 315.28-.29 further states that an auditor should use professional judgment to determine if special audit consideration is warranted based on, among other things, "the degree of subjectivity in the measurement of financial information related to the risk, <i>especially those measurements involving a wide range of measurement uncertainty [emphasis added].</i>"</p> <p>The language on page 9 of the ED and the first sentence in paragraph 15 of the proposed SAS seem to have the effect of precluding auditor's judgment, without regard to their degree of subjectivity, by prejudging all estimates as possessing "significant risk," thereby being inconsistent with AU-C</p> | <p>At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No proposed changes.</p> <p>[Same at comment #8B-22 in agenda item 2C]</p> <p>Task force does not believe this proposed SAS would</p> |

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| #  | Paragraph Reference | Commenter                      | Comment   | Task force response   |
|----|---------------------|--------------------------------|---|---|
|    |                     |                                | 315.28-.29, and with paragraphs 2, 3, 7, and 16 of the proposed SAS. We suggest that these inconsistencies be addressed before a final standard is issued.  | preclude auditor judgment. No changes proposed.   |
| 51 | Nodes\15            | 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 type of a situation could also have an effect on implementing</p> | <p>Same as comment #8E-4 in agenda item 2C</p> <p>The proposed SAS applies to all entities. No change made.</p> |

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| #  | Paragraph Reference | Commenter        | Comment  | Task force response  |
|----|---------------------|------------------|--|--|
|    |                     |                  | 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.   |  |
| 52 | Nodes\16            | 20 - Eide Bailly | Paragraph .16 - we believe the term “walkthrough procedure” be introduced either in this paragraph or in the application guidance, or possible as a conforming amendment to AU-C 315.  | The ASB previously discussed the use of the term “walkthrough” relating to scalability in paragraph A21 and concluded that walkthrough has a very specific term in PCAOB standards and therefore supported not including that term in this proposed SAS. No change made. |
| 53 | Nodes\21            | 07- WA state     | As discussed in paragraph 3, the degree to which an accounting estimate is subject to estimation uncertainty may be very low for certain accounting estimates. Paragraph 3 goes on to state that the nature, timing, and extent of the risk assessment and further audit procedures required by this SAS will vary in relation to the estimation uncertainty and assessment of related risks to material misstatement. However, this does not appear to be reflected in the requirements of the standard, which appears to reflect the | Content is consistent with the GAAS. Added footnote to reference to paragraph 17 as a reminder about how this SAS is scalable based on risk assessment.<br><br>Comment also included at comment #3   |

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| #  | Paragraph Reference | Commenter | Comment   | Task force response         |
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|    |                     |           | <p>presumption of high uncertainty. In order to allow for variability, we would suggest:</p> <p>a. Adding the words "...as needed to respond to estimation uncertainty and the assessed risks of material misstatement" to precede the list of required procedures in paragraphs 21-25. While all 16 of the procedures described in these paragraphs may be relevant to an accounting estimate with high estimation uncertainty, subjectivity and complexity at a large organization, not all of the procedures may be relevant or necessary for every type of accounting estimate or situation (e.g. a straightforward estimate of the useful life of assets or an allowance for doubtful accounts at a smaller organization).</p> |                             |
| 54 | Nodes\21            | 17 - NSAA | <p>(a.) Adding the words "...as needed to respond to estimation uncertainty and the assessed risks of material misstatement" to precede the list of required procedures in paragraphs 21-25. While all 16 of the procedures described in these paragraphs may be relevant to an accounting estimate with high estimation uncertainty, subjectivity and complexity at a large organization, not all of the procedures may be relevant or necessary for every type of accounting estimate or situation (e.g., a straightforward estimate of the useful life of assets or an allowance for doubtful accounts at a smaller organization).</p>   | See response to comment #54 |

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| <i>#</i> | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>  |
|----------|----------------------------|------------------|---|---|
| 55       | 25                         | 14 - NYSSCPA     | We believe that the final standard should state, perhaps as part of paragraph 25, that in evaluating an estimate, the auditor's overall objective should be to examine sufficient and appropriate evidence to be reasonably assured that estimates are based on the best information available at the time they are made, reasonably supportable assumptions, and sound methodology. A client's failure to obtain the best information available based on cost considerations should be regarded as a client-imposed scope restriction and addressed as provided in AU-C section 705. | TF believes current wording is consistent with GAAS and proposed wording would be in conflict with how GAAS describes evidence and assurance. Further, the TF believes that paragraph .26 addresses these concerns and questions whether a scope limitation would exist in the circumstances. No change made. |
| 56       | Nodes\28                   | 18 - GT          | We recognize that this paragraph is specific to when the auditor develops an auditor's range, but we believe the considerations included in this paragraph (adapted as necessary) could also be relevant when an auditor develops a point estimate. Therefore, we suggest adding application guidance to this paragraph to explicitly state that while the auditor is not required to develop a point estimate, similar considerations may be appropriate in such circumstance.   | No change made. Point is already addressed in paragraph A122.   |

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| <i>#</i> | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i>   |
|----------|----------------------------|------------------|--|--|
| 57       | Nodes\28                   | 20 - Eide Bailly | Paragraph .A126 discusses when multiples of materiality may be reasonable. We believe that this type of guidance should be more explicitly written into the standard in paragraph .28.                             | The TF believes there could be unintended consequences with including the discussion about multiples of materiality in the requirements. TF believes placement as application material is appropriate. No change made. |
| 58       | Nodes\29                   | 07- WA state     | We are unclear whether paragraph 29 is intending to impose a requirement or whether it is making a self-evident statement that requirements of AU-C 500 apply to audit evidence obtained for accounting estimates. | At the January 2020 ASB meeting, the ASB continued to support the structure of the SAS to repeat certain requirements to emphasize their applicability to auditing estimates. No change made.                          |

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| 59 | Nodes\29            | 28 - KPMG | <p><i>Additional cross-references between standards would be beneficial</i></p> <p>To aid in application of the Proposed Standard, we recommend additional cross-referencing. Specifically, we suggest the following edit.</p> <p><b>Other Considerations Relating to Audit Evidence</b><br/>(additions <u>underscored</u>)</p> <p>29. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor should comply with the relevant requirements in AU-C sections 500 and <u>501</u>.</p> | Agreed. Added reference to AU-C 501. Same as comment #8C-27   |
| 60 | Nodes\30            | 18 - GT   | <p>We believe the contents of this paragraph are better presented as application guidance as opposed to a requirement paragraph. We recommend revising the requirement to indicate that when using the work of management's specialist, the auditor should comply with the relevant requirements of the applicable AU-C section, which will be determined based on the direction of the ASB's Proposed SAS, <i>Audit Evidence</i>. Then, the current proposed requirement can be added to the existing proposed application guidance as a new paragraph.</p>   | At the January 2020 ASB meeting, the ASB continued to support the structure of the SAS to repeat certain requirements to emphasize their applicability to auditing estimates. No change proposed. |

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| #  | Paragraph Reference | Commenter | Comment   | Task force response   |
|----|---------------------|-----------|---|---|
| 61 | Nodes\30            | 28 - KPMG | <p>Specifically, there appears to be a conflict between the guidance in Paragraph 30 of the Exposure Draft and related application material in paragraph A131. In particular, we note that paragraph 30 appears to suggest that the nature, timing and extent of further audit procedures to evaluate the work of a management’s specialist (including any assumptions developed by the specialist) can be scaled using factors enumerated in the paragraph (paragraph text included for context):</p> <p style="padding-left: 40px;"><i>30. When using the work of a management’s specialist, the requirements in paragraphs 20–28 of this proposed SAS may assist the auditor in evaluating the appropriateness of the specialist’s work as audit evidence for a relevant assertion in accordance with AU-C section 500. In evaluating the work of the management’s specialist, the nature, timing, and extent of the further audit procedures are affected by the auditor’s evaluation of the specialist’s competence, capabilities, and objectivity, the auditor’s understanding of the nature of the work performed by the specialist, and the auditor’s familiarity with the specialist’s field of expertise. (Ref: par. A127–A133)</i></p> <p>However, the related application material in paragraph A131 appears to suggest a different approach whereby assumptions identified by a management’s specialist become management’s assumptions and should be audited using the relevant requirements in the Proposed Standard without any</p> | <p>TF notes that this comment relates to a larger comment suggesting additional work to be done relating to AU-C 501. To be considered by the AU-C 501 task force.</p> <p>Same as comment # A74 and A75</p> |

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|   |                     |           | reference to the specialists guidance in AU-C section 500 (paragraph text included for context):  |                     |
|   |                     |           | <p><i>A131. Assumptions relating to accounting estimates that are made or identified by a management’s specialist become management’s assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this proposed SAS to those assumptions.</i></p> <p>The confusion as to the treatment of assumptions identified by a management’s specialist is compounded by the fact that the corresponding application material for the methods and data used by a management’s specialist is constructed differently and makes a specific reference to AU-C 500 as the primary source of requirements for auditing these elements of an accounting estimate (paragraph included for context):</p> <p><i>A132. If the work of a management’s specialist involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this proposed SAS may assist the auditor in applying AU-C section 500.</i></p> |                     |

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| #  | Paragraph Reference | Commenter       | Comment  | Task force response  |
|----|---------------------|-----------------|--|----------------------|
|    |                     |                 | <p>We do not understand the Board’s expectations for these two application material paragraphs as they appear to be contradicting each other. We recognize that the Board has not yet considered the PCAOB’s new requirements for the auditor’s use of the work of management’s specialists but highlight that we believe that the approach articulated in the above-referenced paragraph A131 of the Proposed Standard is inconsistent with the approach adopted by the PCAOB, which clearly distinguishes between those assumptions used by a management’s specialist that were developed by the specialist and those that were developed by management and provided to the specialist and includes clear instructions for scaling the nature, timing and extent of the further audit procedures for evaluating assumptions developed by the management’s specialist.</p> <p>We further note that the PCAOB’s new standards for both using the work of a management’s specialist and the auditor’s supervision of his/her own specialist provide useful clarity as to what standards (the estimate standard or the specialists standards) should be followed in specific situations when auditing an accounting estimate. We believe that application of the Board’s standards would benefit from similar clarity through further convergence of specific requirements with the PCAOB standards.</p> |                      |
| 62 | Nodes\31            | 10 - RSM US LLP | <p><b><i>Disclosures related to accounting estimates</i></b></p> <p>When reading paragraph 31 of the proposed SAS, it was not immediately clear to exactly what the word “those” is referring. We suggest this paragraph be</p>  | Agreed. Change made. |

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| #  | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>   | <i>Task force response</i>  |
|----|----------------------------|------------------|--|---|
|    |                            |                  | <p>clarified as shown below to be more explicit (a proposed addition is shown in bold font):</p> <p>The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the relevant assertion level for disclosures related to an accounting estimate, other than those <b>procedures</b> related to estimation uncertainty addressed in paragraphs 25b and 28b.</p>  |   |
| 63 | Nodes\32                   | 22 - TIC         | <p><u>Audit Evidence</u></p> <p>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).</p> <p>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.</p> <p>TIC is concerned that paragraph 32 of the ED does not convey these difficulties in the auditor’s assessment of</p> | <p>The TF believes that paragraph 32 is generic to management’s judgments (regardless of how management’s point estimate was determined). Accordingly, the TF believes that the requirement and application material are sufficiently focused on providing insights into considering management’s judgments generically, and aren’t overly focused on the method management used. No change made.</p> |

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|    |                            |                  | <p>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.</p> <p>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.</p> <p>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.</p> |                              |
| 64 | Nodes\32                   | 22 - TIC         | <p><u>Management’s Intent</u></p> <p>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.</p>   | See response to comment #63. |

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|-----|---------------------|--------------|---|--|
| 64A | Nodes\34            | 14 - NYSSCPA | <p>Although paragraph A140 of the proposed SAS states that “the difference between the auditor’s point estimate and management’s point estimate” and “the difference between management’s point estimate and the nearest point of the auditor’s range” each constitute a misstatement, we believe each of those statements should be qualified by adding “provided the auditor has obtained sufficient and appropriate evidence to conclude the auditor’s estimate is sufficiently precise and reliable and the difference is material.”</p> <p>The foregoing notwithstanding, the only place we were able to observe in the proposed SAS that offers clear guidance to auditors as to what adjustment should be proposed, if any, when the client’s estimate is materially at variance from the auditor’s point estimate or outside the auditor’s range estimate appears in paragraph A48 of the proposed SAS, which is limited in its applicability to fair value estimates. We suggest that this be addressed more fully in the final standard, perhaps in paragraph 34, which as currently drafted, refers auditors to an opinion modification as the only possible course of action.</p> | <p>Paragraph 34 requires the auditor to evaluate the implications for the audit <u>or</u> the auditor’s opinion – therefore opinion modification is not the only option. No change made.</p> |
| 65  | Nodes\35            | 17 - NSAA    | <p>Paragraph 35 – We believe the reference to paragraphs A140-A146 should be to paragraphs A140-A145. The reference here to the application guidance for written representations of A146 appears out-of-place (please see comment above on A146).</p>   | <p>The linkage of AM relating to written reps is consistent with how it was placed in extant (under “Determining whether the accounting estimates are reasonable or</p>                      |

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|    |                            |                  |  | misstated). No change made.  |
| 66 | Nodes\35                   | 22 - TIC         | <p><u>Paragraphs 35 and 38e</u></p> <p>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.</p>   | <p>The intent of the SAS is to identify misstatements. It is under AU-C 450 that materiality of those misstatements is determined. Therefore no change made.</p> <p>Same as comment #75.</p> |
| 67 | Nodes\36                   | 07- WA state     | <p>We are unclear whether paragraphs 36 and A113 are intended to impose an additional requirement or expectation above the requirement of AU-C 700 paragraph 16. For example, estimation uncertainty disclosures are not required by GASB or by most special purpose frameworks, and we would not expect auditors to impose them except in the rarest of circumstances. Moreover, these paragraphs are not consistent with the scope of the standard, which is in relation</p> | <p>Discussed at the January 2020 ASB meeting. See response to comment #70 in this document and proposed edit to paragraph 36.</p>  |

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|----|---------------------|----------------------------|---|--|
| 68 | Nodes\36            | 12 - GAO                   | <p>We also suggest that the ASB consider the following editorial comments:</p> <ul style="list-style-type: none"> <li>• Footnote 18 should reference paragraph .A8 rather than paragraph .A16 of AU-C section 700.</li> </ul>   | Paragraph A16 appears to be correct. No change made.   |
| 69 | Nodes\36            | 12 - GAO                   | <p>We encourage the ASB to provide additional guidance in the Application and Other Explanatory Material related to paragraph 36. Specifically, we suggest the following language:</p> <p style="padding-left: 40px;">There may be instances, particularly when estimation uncertainty, complexity, and subjectivity are high, where the auditor determines that additional disclosures related to estimates, beyond those specifically required by the framework, are material to the users of the financial statements and are necessary to achieve fair presentation of the financial statements as a whole.</p> <p>We believe such additional guidance will assist auditors in applying the standard.</p> | Discussed at the January 2020 ASB meeting. See response to comment #70 in this document and proposed change to paragraph 36 in agenda item 2A.                             |
| 70 | Nodes\36            | 15 - Ill Society CPAs 2019 | <p>We question the clarity of disclosure requirements in the proposed SAS, specifically as outlined in paragraphs 36 and A144. Both paragraphs require auditors to evaluate whether management has included disclosures “beyond those specifically required by the framework that are necessary to achieve the fair presentation of the financial statements as a whole.” We believe this language should be removed from the proposed standard, as the language is already included in</p>   | <p>See proposed changes to paragraph 36.</p> <p>At the January 2020 ASB meeting the ASB directed the task force to add application material to paragraph 36 taken from</p> |

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|----------|----------------------------|------------------|---|--|
|          |                            |                  | <p>AU-C 200.14a and does not need to be emphasized in individual auditing standards. In general, we believe a more effective approach to address this issue would be to encourage the FASB board to amend existing standards around disclosure of estimates, rather than requiring individual auditors and their clients to agree on what additional disclosures “beyond those specifically required by the framework” should be added. Requiring auditors and their clients to consider disclosures beyond those required in an existing framework also creates uncertainty as to the requirements for compilation, review and financial statement preparation engagements, since these engagements are not subject to auditing standards.</p> | <p>AU-C 700.A16. [Same comment from 8A-26]</p> |
|          |                            |                  |   |  |
|          |                            |                  |   |  |

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|----|----------------------------|------------------|---|--|
| 71 | 36                         | 17-NSAA          | <p><i>Paragraphs 36 and A113</i></p> <p>These paragraphs address disclosures, beyond those specifically required by the framework, that may be needed in order to achieve fair presentation. This is not consistent with the key concepts and objectives of the proposed SAS, which require the auditor to determine whether accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework. Paragraph 36 is overly broad and seems to establish the requirement to evaluate accounting estimates beyond the context of the applicable financial reporting framework and we are unsure what a situation like this might look like. In addition, for entities that report under the GASB framework, where estimation uncertainty disclosures are not directly required, is it the intention of the board to require additional disclosures beyond the framework? We recommend the ASB either remove paragraph 36 and the applicable sentence in paragraph A113 or modify them to clarify their intent in relation to the overall objectives of the proposed SAS.</p> | Discussed at the January 2020 ASB meeting. See response to comment #70 in this document and proposed change to paragraph 36 in agenda item 2A.   |
| 72 | Nodes\37                   | 07- WA state     | Paragraph 37 would be more appropriately located as application guidance in AU-C 260 (which, in fact, it already is), rather than a referenced requirement here, since this is not actually a requirement but simply an example of how the requirement in AU-C 260 might be applied.  | At the January 2020 ASB meeting the ASB discussed the structure of the SAS and agreed to retain the repetition to other SAS in the requirement to highlight they need to be applied to auditing estimates. No change made. |

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|----|----------------------------|------------------|--|--|
| 73 | Nodes\38\38b               | 07- WA state     | Paragraph 38.b appears to expand on the general requirement of AU-C 330 paragraph 30.b. We are unclear why this expansion would only apply to accounting estimates. If the Board is intending to clarify the general requirement, then the clarification should be located in AU-C 330.  | TF supports aligning with ISA 540 (Revised), including an enhanced risk assessment for estimates. The TF noted that many of the proposed changes in the SAS relate to a better risk assessment, better identification of inherent risk, and more clarification about how responses link up with risk of material misstatement. No change proposed. |
| 74 | Nodes\38\38d               | 22 - TIC         | <p><u>Documentation Requirements</u></p> <p>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.</p> | Consider with comment #63  |

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|----|----------------------------|------------------|--|------------------------------|
| 75 | Nodes\38\38e               | 22 - TIC         | <p><u>Paragraphs 35 and 38e</u></p> <p>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.</p> | See response to comment # 66 |

**Application Material — Detailed comments to paragraphs A1-A155**

|    | <i>Paragraph Reference</i> | <i>Commenter</i> | <i>Comment</i>  | <i>Task force response</i>  |
|----|----------------------------|------------------|---|---|
| A1 | Nodes\A001                 | 20 - Eide Bailly | <p>Paragraph .A1 – we recommend removing the example of depreciation. We believe that depreciation is not a significant estimate, rather, it’s a calculation of inputs. The significant estimate would be the useful lives of the fixed assets. However, we suggest using a different example as this is an area of confusion in practice in applying the requirements of this standard to depreciation and property.</p> | No change made. Depreciation is an estimate and the SAS applies to all estimates. |
| A2 | Nodes\A001                 |                  | The Committee realizes the examples noted in paragraph A1 are not intended to be all inclusive; however, there are two  | TF believes examples specific to NPOs or SLGs                                     |

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|    | <i>Paragraph Reference</i> | <i>Commenter</i>               | <i>Comment</i>   | <i>Task force response</i>   |
|----|----------------------------|--------------------------------|--|--|
|    |                            | 21 - Florida Institute of CPAs | additional examples the Committee would like to suggest for inclusion as they are relevant and common in governmental and not-for-profit organizations. The Committee believes not-for-profit organizations use significant estimation techniques when measuring the fair value of contributed gifts-in-kind, securities, and certain services. Additionally, governmental organizations are required to measure certain transactions using “acquisition value”. A common example of this is the contribution of infrastructure and other capital assets by developers, other governments, individual, or others. Therefore, we believe these situations should be considered as examples in paragraph A1. | are better placed in the audit guides.   |
| A3 | Nodes\A001                 | 24 - CohnReznick               | However, we do recommend the term “valuation of infrastructure assets” be clarified in .A1 as this can be read as physical structures and roadways, and also possibly as computer infrastructure, or possibly misunderstood  | See proposed change to paragraph A1 to clarify what is meant by infrastructure assets. |

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|    | <i>Paragraph Reference</i> | <i>Commenter</i>                                      | <i>Comment</i>   | <i>Task force response</i>                                |
|----|----------------------------|---|--|---|
|    |                            |   | altogether. We respectfully suggest a revision such as “valuation of infrastructure assets such as buildings and roads, that are assets of a governmental body.”   | Same as comment #8A-27.                                   |
| A4 | Nodes\A007                 | 17 - NSAA   | Paragraph A7 – We believe the reference to paragraphs A20-A22, A63, A67, and A84 should be A21-A23, A64, A68, and A85.   | Agreed. Updated references.                               |
| A5 | Nodes\A007                 | 27 - Hunter college Estimates and Related Disclosures | <p>A7. This paragraph talks about the relationship between estimation uncertainty, and the complexity and subjectivity involved in making estimates effect on the nature, timing, and extent of further audit procedures. We recommend revising the third sentence to state:</p> <p style="text-align: center;"><b>“For accounting estimates with low estimation uncertainty based on their nature, and low complexity and subjectivity involved in making such estimates, the risk assessment procedures and further audit procedures required by this proposed SAS would not be expected to be extensive.”</b></p> <p>This allows auditors to more clearly understand the relationship and how to adjust the nature, timing, and extent of further audit procedures based on the degree of estimation uncertainty, complexity, and subjectivity.</p> | Unclear as the placement of this content. No change made. |

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|    | <i>Paragraph Reference</i> | <i>Commenter</i>    | <i>Comment</i>   | <i>Task force response</i>   |
|----|----------------------------|---------------------|--|--|
| A6 | Nodes\A011                 | 14 - NYSSCPA        | The subject of professional skepticism is particularly critical to auditing accounting estimates. We suggest that professional skepticism be more prominently placed directly in the body of the final standard and the discussion in paragraphs 7 and A11 be enhanced.  | Discussed at the January 2020 ASB meeting. The ASB believes that much thought went into the crafting of the use of professional skepticism in ISA 540 (Revised) and directed to task force to retain the structure of the proposed SAS. No changes made. |
| A7 | Nodes\A011                 | 27 - Hunter college | <p>A11. This paragraph discusses the effect inherent risk factors have on the importance of professional skepticism regarding accounting estimates. We recommend breaking up the first sentence into two separate sentences, and rewording the third sentence:</p> <p style="padding-left: 40px;">The exercise of professional skepticism in relation to accounting estimates is affected by the auditor’s consideration of inherent risk factors. <b>The importance of professional skepticism increases for accounting estimates with a greater degree of estimation uncertainty, complexity, subjectivity, or other inherent risk factors. The importance of professional skepticism also increases when there is</b></p> | I believe this proposed change relates to paragraph 7 (and not A11). Task force continues to support avoiding unnecessary differences from the ISA.  |

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|----|----------------------------|---------------------|---|---|
|    |                            |                     | <p><b>greater susceptibility to misstatement due to management bias of fraud.</b></p> <p>This allows auditors to more easily see and understand the relationship between inherent risk factors and the importance of professional skepticism</p>  |   |
| A8 | Nodes\A012                 | 27 - Hunter college | <p>A12. This paragraph assesses the concept of the accounting estimates being reasonable. We believe that this intro sentence is not properly written and should be rewritten to be more easily understood by the reader. In addition, the first bullet point should be more elaborated on as it is references an unknown subject.</p> <p><b>Staying in the context of the applicable financial reporting framework</b>, other considerations that may be relevant to the auditor’s consideration of whether the accounting estimates and related disclosures are reasonable <del>in the context of the applicable financial reporting framework</del> include whether:</p> <ul style="list-style-type: none"> <li>• The data and assumptions used in making the accounting estimate are consistent with <del>each other</del> <b>previous estimates done by an entity</b>, and with those used in other accounting estimates or areas of the entity’s business activities, and <b>with estimates conducted by similar entities in a given industry.</b></li> </ul> | <p>No change made, placement of content supported by editorial review.</p> <p>The proposed edits change the meaning of the paragraph. No change made.</p> |

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| A9  | Nodes\A014                 | 28 - KPMG           | <p>A14. For purposes of generally accepted auditing standards (GAAS), a <b>fair value measurement</b> is a form of accounting estimate.</p> <p>Suggested revision: No change. Illustrates preferred wording.</p>  | Comment was just to highlight wording. No change necessary.             |
| A10 | Nodes\A018                 | 27 - Hunter college | <p>A18. This paragraph refers to the outcome of an Accounting Estimate and does a decent job explaining it but can be shortened and stated clearer to further emphasis its purpose.</p> <p>Some accounting estimates, <del>by their nature,</del> do not have an outcome that is relevant for the auditor's work performed <del>in accordance with this proposed SAS.</del> For example, an accounting estimate may be based on <del>perceptions</del> prices of <b>actual</b> market participants at a point in time. Accordingly, the price <del>realized</del> when an asset is sold or a liability is transferred may differ from the <del>related</del> <b>previous</b> accounting estimate made at the reporting date, <del>with the passage of time, the market participants' perceptions of value have changed.</del> <b>because the passage of time may have changed the market's perceptions.</b></p> | The proposed edit changes the meaning of the paragraph. No change made. |

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| A11 | Nodes\A021                 | 19 - EY          | <p>We recommend the following edit to paragraph A21 of the proposed SAS to recognize that auditors may perform procedures other than “observation” when they gain an understanding of management’s process for making the accounting estimate.</p> <p><i>The nature, timing, and extent of the auditor’s procedures to obtain the understanding of the entity and its environment, including the entity’s internal control, related to the entity’s accounting estimates, may depend, to a greater or lesser degree, on the extent to which the individual matters apply in the circumstances. For example, the entity may have few transactions or other events and conditions that give rise to the need for accounting estimates; the applicable financial reporting requirements may be simple to apply; and there may be no relevant regulatory factors. Further, the accounting estimates may not require significant judgments, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree, and there may be fewer controls relevant to the audit. If so, the auditor’s <b>is likely to perform simple</b> risk assessment procedures <del>are likely to be less extensive and</del> <b>which</b> may be performed primarily through inquiries of management with appropriate responsibilities for the financial statements and <b>simple procedures to gain an</b></i></p> | <p>No change made. TF has concerns with using different terminology.</p> <p>The use of “observation” was intentional to replace “walkthrough” and was discussed at the May and July 2019 ASB meetings.</p> |

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|-----|----------------------------|---------------------|--|---|
|     |                            |                     | <u>understanding</u> <del>observation</del> of management's process for making the accounting estimate.  |   |
| A12 | Nodes\A021                 | 27 - Hunter college | <p>A21. This paragraph explaining scalability in accounting estimates can be stated more succinctly and therefore add greater clarity.</p> <p>The nature, timing, and extent of the auditor's <b>risk assessment</b> procedures to obtain the an understanding of the entity and its environment, including the entity's <del>internal control</del>, related to the entity's accounting estimates, may depend, to a greater or lesser degree, on the extent <b>of the need for and number and</b></p> | No change made. By replacing the wording with risk assessment would change the intent of the paragraph. |

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|-----|----------------------------|------------------|--|----------------------------|
|     |                            |                  | <p><b>complexity of transactions subject to estimation</b>—<del>to which the individual matters apply in the</del> circumstances. For example, the entity may have few transactions or other events and conditions that give rise to the need for accounting estimates; <b>including</b> the applicable financial reporting requirements may be simple to apply; and/or there may be no relevant regulatory factors. Further, the accounting estimates may not require significant judgments, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors <del>to a lesser degree</del>, and there may be fewer controls relevant to the audit. If so, the auditor’s risk assessment procedures are likely to be less extensive and may be performed primarily through inquiries of management <del>with appropriate responsibilities for the financial statements</del> and observation of management’s process for making the accounting estimate.</p> |                            |
| A13 | Nodes\A022                 | 17 - NSAA        | Paragraph A22 – We believe the reference to paragraph A20 should be to A21.  | Agreed. Change made.       |
| A14 | Nodes\A022                 | 19 - EY          | Paragraph A22 refers to procedures outlined in paragraph A20. But due to the changes in paragraph numbering from ISA 540, we believe this reference should be to paragraph A21.  | Agreed. Change made.       |

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|-----|----------------------------|------------------|---|---|
| A15 | Nodes\A022                 | 20 - Eide Bailly | Paragraph .A22 – the end of this paragraph has a reference back to paragraph .A20, but appears it should reference .A21.  | Agreed. Change made.  |
| A16 | Nodes\A023                 | 20 - Eide Bailly | Paragraph .A23 – we believe that examples, either in this paragraph or in the bullet points would be very helpful given the significance of these points and the difficulty in identifying significant assumptions in practice.   | TF believes any further examples should be done through guides. No change made.   |
| A17 | reserved                   |                  | [removed duplicate comment with par 25 (comment #55 - detailed schedule NYSSCPA)]   | n/a   |
| A18 | Nodes\A027                 | 11 - Deloitte    | We believe that the movement of application paragraph A17 from AU-C section 501 to application paragraph A27 of the proposed SAS is not appropriate, as the inclusion of this paragraph within this respective section is out of place. This section (i.e., the application material to paragraph 12b of the proposed SAS) is intended to provide guidance on how the auditor understands the requirements of the applicable financial reporting framework as part of its understanding of the entity and its environment. The example appears too granular for this section as it discusses the nature of the significant judgments involved in estimating an impairment loss for a decline in fair value that is other than temporary, in addition to the level of subjectivity of the assumptions used to develop the accounting estimate. | ASB supported removing paragraph A27. Therefore, content has been removed (and not included in par. A68). Same as comment #8C-25 in agenda item 2C. |

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|--|----------------------------|------------------|---|----------------------------|
|  |                            |                  | <p>In addition, D&amp;T believes that this paragraph may be outdated upon the adoption of the Current Expected Credit Loss (CECL) accounting standard. As such, we recommend removing this paragraph entirely from the proposed SAS. However, if the ASB chooses to maintain this example within the proposed SAS, we recommend that the example be integrated into paragraph A68 as follows:</p> <p>A68. The reasons for the auditor’s assessment of inherent risk at the relevant assertion level may result from one or more of the inherent risk factors of estimation uncertainty, complexity, subjectivity, or other inherent risk factors. Examples follow:</p>  |                            |
|  |                            |                  | <ul style="list-style-type: none"> <li>• Accounting estimates of expected credit losses are likely to be complex because the expected credit losses cannot be directly observed and may require the use of a complex model. The model may use a complex set of historical data and assumptions about future developments in a variety of entity-specific scenarios that may be difficult to predict. Accounting estimates for expected credit losses are also likely to be subject to high estimation uncertainty and significant subjectivity in making judgments about future events or conditions. Similar considerations apply to insurance contract liabilities.</li> <li>• <b>An accounting estimate for an impairment loss for a decline in fair value that is other than temporary may involve estimating the outcome of future events and</b></li> </ul> |                            |

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|--|----------------------------|------------------|---|----------------------------|
|  |                            |                  | <p><b>making judgments in determining whether factors exist that indicate that an impairment loss has been incurred at the end of the reporting period. These judgments are based on subjective as well as objective factors, including knowledge and experience about past and current events and assumptions about future events. The following are examples of such factors: fair value is significantly below cost or carrying value and the decline has existed for an extended period of time, the security has been downgraded by a rating agency, the financial condition of the issuer of those securities has deteriorated, dividends have been reduced or eliminated or scheduled interest payments have not been made, and/or the entity recorded losses from the security subsequent to the end of the reporting period. The degree of estimation uncertainty for these accounting estimates may be high given the significant subjectivity involved in determining the impairment loss.</b></p> |                            |
|  |                            |                  |   |                            |
|  |                            |                  |   |                            |
|  |                            |                  |   |                            |

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|     | <i>Paragraph Reference</i> | <i>Commenter</i>    | <i>Comment</i>  | <i>Task force response</i>   |
|-----|----------------------------|---------------------|---|--|
| A19 | .A027                      | 28 - KPMG           | <p><i>Impairment Considerations in the Application Material</i></p> <p>Paragraph A27 in the application material of the Proposed Standard focuses on evaluation of indicators of other than temporary impairment (OTTI) of financial instruments. We note that in U.S. GAAP, Accounting Standards Codification Topic 326, <i>Financial Instruments – Credit Losses</i> that was adopted by the Financial Accounting Standards Board (FASB) in June 2016 replaced the OTTI model with a credit loss model. As a result of this change, entities are now prohibited from avoiding the recording of credit losses by considering the length of time that the fair value of an available for sale debt security has been less than its amortized cost basis. Considering these changes to U.S. GAAP, we suggest that the Board reconsider the guidance included in the above-referenced paragraph in the application material of the Proposed Standard.</p> | <p>The task force agrees that paragraph A27 should be removed from the proposed SAS because it will become outdated once the CECL standard becomes effective.</p> <p>ASB agreed with removing paragraph A27.</p> <p>[Same as comment #8A-28 from agenda item 2C]</p> |
| A20 | Nodes\A029                 | 01 - TN State Audit | <p>In ¶A29 (in particular, the heading), we believe additional guidance is needed about the intent of “expects to be included in the financial statements.” Our concern is whether the expectation goes beyond the minimum requirements of an applicable financial reporting framework or regulatory framework. In other words, on what is the expectation based? If the intent is that other disclosures beyond the minimum requirements of the applicable financial reporting framework might be needed to ensure a fair presentation, this should be added as an explanation. We want to ensure the practitioner explicitly understands what his/her</p>   | <p>See response in comment #30</p>   |

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|-----|----------------------------|------------------|--|---|
|     |                            |                  | responsibilities are in order to comply with the SAS. This clarification might be best in ¶12d or its introduction paragraph.  |   |
| A21 | Nodes\A031                 | 18 - GT          | The third bullet of this paragraph refers to whether those charged with governance (TCWG) are independent from management. However, in considering the requirements and application guidance of AU-C section 260, we did not identify any mention or correlation to TCWG being independent of management. Therefore, we recommend deleting the phrase “are independent from management” and leaving the rest of the bullet unchanged. Since this appears to introduce a new concept related to TCWG, we believe additional explanation as to what this means would be necessary if the Board chooses to retain the language as proposed. | See proposed change to paragraph A31 in agenda item 2A. |
|     |                            |                  |  |   |
|     |                            |                  |  |   |
| A22 | Nodes\A033                 | 16 - Virginia    | Paragraphs 12f and A33 discuss the use of management’s specialists; however, the SAS does not provide guidance on the degree of reliance the auditor may place on their judgements in evaluating the appropriateness of estimates. The ASB should provide a reference in paragraph A33 to paragraph .08 of AU-C section 500, Audit Evidence, to direct the auditor to the relevant guidance in developing further audit procedures regarding management specialists.   | See response in comment #35                             |
|     |                            |                  |  |   |

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|     | <i>Paragraph Reference</i> | <i>Commenter</i>               | <i>Comment</i>   | <i>Task force response</i>  |
|-----|----------------------------|--------------------------------|--|---|
| A23 | Nodes\A033                 | 21 - Florida Institute of CPAs | <p>A number of government sponsors defined benefit, defined contribution, and/or other types of retirement benefits for their employees. In some cases, the government does not sponsor its own plan but rather participates in a plan sponsored by another government such as a local government participating in a state-sponsored plan. Such arrangements are multipleemployer plans where the plans are agent-multiple or cost-sharing plans and the sponsoring government provides actuarial information to the participating governments. The Committee believes, in these plans, the plan sponsor is in effect management’s “specialist”. Because participating governments are not involved in determining plan benefits or developing the underlying actuarial assumptions, they may not have the requisite expertise to fulfill their responsibilities with respect to such specialists and the Committee believes this could prove problematic for auditors. Therefore, the Committee believes a discussion of this aspect of paragraph 12f should be discussed in the Application Material in paragraph A33 for example.</p> <p>Similar to the situation described in the immediately preceding paragraph is when a government sponsors its own retirement benefit plan(s). In such situations the Committee believes the actuary is clearly a specialist for management and management may or may not have the expertise needed to fulfill their responsibilities with respect to work performed by the actuary. The Committee believes this situation should be discussed in the Application Material as well.</p> | No change made. TF believes industry specific guidance and examples are better placed in relevant audit guides. |

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|-----|----------------------------|------------------|---|----------------------------|
|     |                            |                  | The Committee does not believe the examples noted in paragraph A33 are particularly relevant for the majority of auditors required to perform audits of financial statements in accordance with standards established by the AICPA Auditing Standards Board. Therefore, the Committee respectfully requests more relevant examples be considered for inclusion in this paragraph. |                            |
| A24 | [Reserved]                 |                  | [Comment moved to comment #64A to paragraph 34 in detailed requirements schedule.]  | n/a                        |
| A25 | [Reserved]                 |                  | [Duplicate comment to comment #71 in detailed requirements schedule so removed from this schedule]  | n/a                        |

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|-----|----------------------------|---------------------|--|--|
| A26 | Nodes\A036                 | 20 - Eide<br>Bailly | Paragraph .A36 – it appears a heading immediately preceding paragraph A36 is missing or the heading is in the wrong place. The paragraph discussed control deficiencies for missing disclosures, but the heading is labeled “The Entity’s Information Systems Relation to Accounting Estimates”. | Placement is correct based on the requirement paragraph. No change made. |

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|-----|----------------------------|---------------------|---|--|
|     |                            |                     |   |  |
| A27 | Nodes\A041                 | 01 - TN State Audit | For ¶A41 (“potential judicial or regulatory actions”), we suggest clarifying that this example is for transactions and events that occurred during the financial reporting period, not future transactions or events. | No change made.<br>TF concerned that such addition would limit the information when older information may be needed. |
|     |                            |                     |   |  |

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|-----|----------------------------|------------------|---|---|
| A28 | Nodes\A042                 | 28 - KPMG        | A42. With respect to <b>fair value accounting estimates</b> ,...<br>Suggested Revision:<br>A42. With respect to <b>fair value measurements</b> ,...   | At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included. No change made. |
| A29 | Nodes\A043                 | 20 - Eide Baily  | Paragraph .A43 provides a definition of a significant assumption. We believe it would be more appropriate to include this in the Definitions section, rather than solely in the application material. | No change made. TF notes that the definitions are in the context of GAAS. “Significant assumption” is for purpose of this SAS only and therefore appropriate to retain as application material. .   |
| A30 | Nodes\A045                 | 14 - NYSSCPA     | <b>Other Comments</b>   | Same as comment #16. (Comment also included   |

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|-----|----------------------------|------------------|--|--------------------------------|
|     |                            |                  | <p>For your consideration we offer the following additional comments:</p> <p>(a) In the <b>Evaluation of the estimates</b> section (second bullet) on p. 11 of the ED, the ED correctly identifies – in broad terms – the three elements of an estimate as the selection of the method, assumptions, and data.</p> <p>We offer that the term “data,” as referred to in paragraphs 8, 12h.ii.(c) and A45 of the proposed SAS (et seq, as applicable) should be characterized as “verifiable data.” We are offering this suggestion because data can be produced by any number of sources and can be placed out of context. While “data” is simply a set of values – numeric or otherwise – “information”, as some respondents noted in the response to the exposure draft on audit evidence, is data in context. To that extent, the term “data” simply means “values” without any context or verifiability. To evaluate the accounting estimate properly, we suggest that the term “data” be revised to “verifiable data,” or even more narrowly “verifiable information,” (i.e., data in context). We are concerned that if the term is left unchanged it may provide an opening for accepting any value as part of the estimation model.</p> | with paragraph 8 and 12hii(c)) |
| A31 | Nodes\A045                 | 16 - Virginia    | The fourth bullet in paragraph A45 states “inprevious” but should include a space between the two words.   | Noted. Space is there.         |

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|-----|----------------------------|---------------------|---|---|
| A32 | Nodes\A045                 | 17 - NSAA           | Paragraph A45, fourth bullet – “inprevious” should be “in previous”.  | Noted. Space is there.  |
| A33 | Nodes\A047                 | 27 - hunter college | <p>A47. We think a portion of this clause seems redundant and could be better delivered with some grammatical changes.</p> <p>The requirements of the applicable financial reporting framework may specify the approach to selecting management’s point estimate from the reasonably possible measurement outcomes. <del>Financial reporting frameworks may recognize that the appropriate amount is one that is appropriately selected from the reasonably possible measurement outcomes and, In</del> some cases, <b>the framework may</b> indicate that the most relevant amount may be in the central part of that range.</p> | No change made to avoid unnecessary differences from ISA 540 (Revised).   |
| A34 | Nodes\A048                 | 28 - KPMG           | <p>A48. For example, with respect to fair value estimates, FASB <i>Accounting Standards Codification</i> (ASC) 820. A <b>fair value measurement</b> is the point within that range that is most representative of fair value in the circumstances.</p> <p>Suggested Revision:</p> <p>No change. Illustrates preferred wording.</p>  | No change proposed by comment. No change made. Because discussion FASB GAAP appropriate to use “fair value measurement” |

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|-----|----------------------------|------------------|---|--|
| A35 | Nodes\A056                 | 11 - Deloitte    | <p>We recommend the following edits to the <i>Application and Other Explanatory Material</i>:</p> <ul style="list-style-type: none"> <li>• Add in “subjectivity” as part of the information one would obtain through performing a retrospective review to be consistent with the inherent risk factors outlined in paragraph 15 of the proposed SAS.</li> </ul> <p>A56. A review of the outcome or re-estimation of previous accounting estimates (retrospective review) assists in identifying and assessing the risks of material misstatement when previous accounting estimates have an outcome through transfer or realization of the asset or liability in the current period or are re-estimated for the purpose of the current period. Through performing a retrospective review, the auditor may obtain the following:</p> <ul style="list-style-type: none"> <li>• Information regarding the effectiveness of management’s previous estimation process, from which the auditor can obtain audit evidence about the likely effectiveness of management’s current process.</li> <li>• Audit evidence of matters, such as the reasons for changes that may be required to be disclosed in the financial statements.</li> <li>• Information regarding the complexity, <b>subjectivity</b>, or estimation uncertainty pertaining to the accounting estimates. . .</li> </ul> | Agreed. Added “subjectivity” to paragraph A56. |

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|-----|----------------------------|---------------------|---|--|
| A36 | Nodes\A056                 | 27 - Hunter college | <p>A56. We find the structure of this paragraph is unclear and difficult to decipher. With different punctuation or wording, the point might be received more easily and thoroughly.</p> <p>A retrospective review (review of the outcome or re-estimation of previous accounting estimates) assists in identifying and assessing the risks of material misstatement. This is useful when previous accounting estimates have an outcome through transfer or realization of the asset (or liability) in the current period, or are re-estimated for the purpose of the current period. Through performing a retrospective review, the auditor may obtain the following -</p> | These proposed edits appear to change the meaning of this paragraph and broadens what was previously drafted. No changes made. |
| A37 | Nodes\A057                 | 20 - Eide Bailly    | <p>Paragraph .A57 – for additional clarity, we suggest that this paragraph be revised to more specifically address the use of trend analysis. For example, the last sentence could be revised to say, “In some cases, a retrospective review over several periods may be appropriate when the outcome of an accounting estimate is resolved over a longer period, <i>or when a history of outcomes provides meaningful information or evidence of a trend.</i>”</p>   | Agreed. Added content to paragraph A57.  |
| A38 | Nodes\A058                 | 20 - Eide Bailly    | <p>Paragraph .A58, in relation to retrospective reviews, states that “As a practical matter, the auditor’s review of previous accounting estimates as a risk assessment procedure in accordance with this proposed SAS may be carried out in</p>  | Same as comment # 47   |

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|--|----------------------------|------------------|---|----------------------------|
|  |                            |                  | <p>conjunction with the review required by AU-C section 240.” We do not believe this is the Board’s intent; however, this sentence appears to allow the only retrospective review to be completed along with the substantive testing procedures rather than requiring a preliminary retrospective review as a risk assessment procedure as prescribed in paragraph .13.</p> |                            |
|  |                            |                  | <p>We believe paragraph .A58 should be revised to not conflict with paragraph .13. We believe that paragraph .A53 on page 88 provides a good example of how the concepts of retrospective review could be addressed in paragraphs .13 and .A56.</p>   |                            |
|  |                            |                  |   |                            |

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|-----|----------------------------|------------------|---|---|
| A39 | Nodes\A060                 | 28 - KPMG        | <p><b>A60.</b> The measurement objective for <b>fair value accounting estimates</b> and other accounting estimates, based on current conditions at the measurement date,</p> <p>For example, in some cases, obtaining an understanding of changes in market participant assumptions that affected the outcome of a previous period’s <b>fair value accounting estimates</b> may be unlikely to provide relevant audit evidence.</p> <p>Suggested Revision:</p> <p>A60. The measurement objective for <b>fair value measurements</b> and other accounting estimates, based on current conditions at the measurement date, .....For example, in some cases, obtaining an understanding of changes in market participant assumptions that affected the outcome of a previous period’s <b>fair value measurements</b> may be unlikely to provide relevant audit evidence.</p> | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |
| A40 | Nodes\A061                 | 11 - Deloitte    | <p>Use terminology in paragraph A61 that is consistent with other paragraphs in the proposed SAS when referencing credit loss models for loan loss provisions.</p> <p>A61. A difference between the outcome of an accounting estimate and the amount recognized in the previous period’s financial statements does not necessarily represent a misstatement of the previous period’s financial statements. For example, an entity assumed a forecasted unemployment rate in the</p>   | <p>No change made. ASB specifically discussed this example at the May 2019 ASB meeting and considered the wording. ASB directed the TF to use “loan loss estimate”</p>  |

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|     |                            |                  | development of an <b>expected credit</b> loan loss <b>provision</b> estimate, and the actual losses and unemployment rate differed from that assumed. . .   |   |
| A41 | Nodes\A061                 | 18 - GT          | The second-to-last sentence of this paragraph discusses how the auditor may reassess control risk under the circumstances described in the preceding example within the paragraph. We question whether such circumstances could impact not just control risk but inherent risk as well. It is unclear why the reassessment would be limited to control risk, and, therefore, we recommend that the Board revise the sentence to be more general regarding which risks of material misstatement would be reassessed. | No change made.<br>TF believes that it is not appropriate to include inherent risk here because the example is dealing with management’s processes (controls). Inherent risk should not take into account controls. |
| A42 | Nodes\A064                 | 20 - Eide Baily  | The last sentence of paragraph .A64 states “the auditor is likely to conclude that it is necessary to apply specialized skills or knowledge.” We believe it would be more appropriate to modify the wording from “likely to conclude” to “may conclude” as the standard should not assume an engagement team does not have the necessary specialized skills or knowledge for a given audit area.  | No change made to avoid unnecessary differences from the ISA.<br>Further, TF believes this paragraph is highlighting the need for necessary skills or knowledge in these circumstances is likely to be needed.      |

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| A43 | [Reserved]                 |                     | [Duplicate comment from DT as comment #18 in this schedule. No changes proposed to paragraph A68 therefore comment not repeated here.]   | n/a  |
| A44 | Nodes\A073                 | 18 - GT             | With regard to the second bullet of this paragraph, we believe that the term “inputs” is used more frequently than “data” in the context of fair value measurements. Therefore, we recommend replacing the term “data” used toward the end of this sentence with “inputs.” | No change made.<br>The term “data” is used throughout the SAS and would cause confusion to use different terms to mean the same thing. |
| A45 | Nodes\A073                 | 27 - Hunter college | A73. This paragraph makes reference to the “use of unobservable inputs” required by the financial reporting framework, this language gives rise to ambiguity and confusion since it doesn’t give an example of such input and  | FASB GAAP uses unobservable inputs and language aligns with  |

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|     |                            |                     | <p>it’s unlikely that FASB would use such a vague term. “Assumptions that are based on unobservable data and, therefore, difficult for management to develop” is this sentence referring to forecasted data such as Macro or Micro data that could have an effect on the economy or the specific entity?</p> <p>This paragraph also mentions the following; “Whether it is possible (or practicable, insofar as permitted by the applicable financial reporting framework) for management — to make a precise and reliable prediction about the future realization of a past transaction” and it gives other examples of decisions management may make, the judgments or estimates of expert staff of an entity should also be taken into account to have inputs from employees and members with a specific expertise in a field.</p> | accounting frameworks. No changes made.   |
| A46 | Nodes\A074                 | 27 - Hunter college | A74. Makes the false assumption that misstatements could only be misstated upwards, this in our opinion is incorrect because a misstatement can also be a downward estimate that reduces the amount of the estimate and that could unduly affect certain shareholders and the fair presentation of the Financial Statements.  | <p>No change made.</p> <p>The point of the example is to recognize that small items may not be small because they could be understated or</p> |

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|-----|----------------------------|------------------|--|---|
|     |                            |                  |  | could be qualitatively material.  |
| A47 | Nodes\A074                 | 28 - KPMG        | <p><b>A74.</b> ...to obtain precise and complete information about a present condition (for example, information about valuation attributes that would reflect the perspective of market participants at the date of the financial statements, to develop a <b>fair value estimate</b>).</p> <p><b>A75.</b> In some circumstances, the estimation uncertainty may be so high that a reasonable accounting estimate cannot be</p> | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting</p> |

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|-----|----------------------------|---------------------|--|--|
|     |                            |                     | <p>made. The applicable financial reporting framework may preclude recognition of an item in the financial statements or its <b>measurement at fair value</b>.</p> <p>Suggested Revision:</p> <p>A74. ...to obtain precise and complete information about a present condition (for example, information about valuation attributes that would reflect the perspective of market participants at the date of the financial statements, to develop <b>a fair value measurement</b>).</p> <p>No change suggested for A75. Included as another example of inconsistency, yet includes measurement.</p> | <p>estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |
| A48 | Nodes\A080                 | 27 - Hunter college | A79-A80. Paragraph A80 repeats what is stated in paragraph A79. In addition, A80 is put into a separate bolded topic named <b>Other Inherent Risk Factors</b> . A79 and A80 should be merged to avoid repetitiveness of a related topic and to avoid confusing the reader.   | Par A79 is addressing par 15(b)(i) whereas par. A80 addresses par 15(b)(ii). No changes proposed.  |
| A49 | Nodes\A082                 | 18 - GT             | <p>We recommend including the notion of the combination of testing approaches into the example within this paragraph. We suggest the following edit for the Board’s consideration:</p>   | Agreed. Change made.   |

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|     |                            |                     | ... For example, when several assumptions are used to make an accounting estimate, the auditor may decide to use a different testing approach <i>or combination of testing approaches</i> for each assumption tested.   |   |
| A50 | Nodes\A085                 | 27 - Hunter college | A85. Paragraph A85 is mis-referenced in paragraph A7 under the topic of <b>Scalability</b> (Ref: par. 3).   | Agreed. Reference corrected.  |
| A51 | Nodes\A091                 | 27 - Hunter college | A91. The punctuation of the bullet points of A91 should be changed slightly; adding a semicolon after the words “Examination” and “Recalculation” could improve the meaning of the terms that are being conveyed.   | AICPA style. No change made.  |
| A52 | Nodes\A091                 | 28 - KPMG           | A91. When the auditor’s further audit procedures in response to a significant risk consist only of substantive procedures, AU-C section 330 requires that those procedures include tests of details. Such tests of details may be designed and performed under each of the approaches described in paragraph 17 of this proposed SAS based on the auditor’s professional judgment in the circumstances. Examples of tests of details for significant risks related to accounting estimates include the following: | TF reviewed use of assumptions and significant assumptions for appropriateness. |

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|-----|----------------------------|---------------------|---|--|
|     |                            |                     | <ul style="list-style-type: none"> <li>• Examination, for example, examining contracts to corroborate terms or <b>assumptions</b>.....</li> <li>• Agreeing <b>assumptions</b> used to supporting documentation, such as third-party published information</li> </ul>  |  |
|     |                            |                     | <p>Comment: It is unclear whether it is the Board’s intention that the guidance should be applied to all assumptions or just the significant assumptions identified for testing.</p> <p>Recommendation: Include “significant” before assumptions.</p>   |  |
| A53 | Nodes\\A092                | 27 - Hunter college | <p>A92-A94. We recommend splitting up the paragraph into two sentences in order to make it more easily readable.</p> <p>When the auditor’s further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor’s report, the auditor should evaluate whether such audit evidence is sufficient and appropriate to address the risks of material misstatement relating to the accounting estimate. <b>The auditor should take into account changes in circumstances and other relevant conditions between the event and the measurement date that may affect the relevance of such audit evidence in</b></p> | Proposed changes would eliminate examples that many find useful. No change made. |
|     |                            |                     |   |  |
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|     |                            |                     | <b>the context of the applicable financial reporting framework.</b>   |   |
| A54 | Nodes\A093                 | 20 - Eide<br>Bailly | Paragraph .A93 discusses two considerations when evaluating audit evidence up through the date of the auditor’s report. The first two sentences discuss accounting estimates that develop over an extended period of time. We believe it would helpful to add examples of such scenarios, such as IBNR and environmental liabilities, and provide some guidance on considerations of auditing the evidence in such cases. The second consideration is in the last sentence, which discusses fair value accounting estimates and distinguishing between events that occur after period end that are not relevant to an estimate at period end. Such events are common in practice, and often difficult to determine in which period an event relates for recording, such as with share-based compensation and contingent liabilities. Again, we believe examples would be helpful to auditors. | No change made. TF recommends any further examples be developed and included in audit guides. |
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| A55 | Nodes\A094                 | 28 - KPMG        | <p><b>A94.</b> Because the measurement of many accounting estimates, other than <b>fair value accounting estimates</b>, usually depends on the outcome of future conditions, transactions, or events, the auditor’s work under AU-C section 560 is particularly relevant</p> <p>Suggested Revision:</p> <p>A94. Because the measurement of many accounting estimates, other than <b>fair value measurements</b>, usually depends on the outcome of future conditions, transactions, or events, the auditor’s work under AU-C section 560 is particularly relevant.</p> | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |
| A56 | Nodes\A096                 | 11 - Deloitte    | <p>Capture more explicitly in paragraph A96 that the auditor may challenge management on changes in methods, significant assumptions, and data from prior periods, as well as including a period at the end of each bulleted statement.</p>  |   |

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|-----|----------------------------|------------------|---|---|
|     |                            |                  | <p>A96. The auditor may need to have further discussions with management about the following circumstances and, in doing so, challenge management regarding the appropriateness of the <b>methods, significant assumptions, and data</b> used:</p> <ul style="list-style-type: none"> <li>• When there is a change from prior periods in a method, or significant assumption, <b>or data</b>.</li> <li>• When the <b>significant assumption or data</b> is not based on <b>the best available</b> <del>new circumstances</del> or new information.</li> <li>• When significant assumptions are inconsistent with each other and with those used in other accounting estimates or with related assumptions used in other areas of the entity’s business activities.</li> </ul> | No change made. Proposed edit changes the meaning of the paragraph. |
| A57 | Nodes\A096                 | 28 - KPMG        | <p>A96. The auditor may need to have further discussions with management about the following circumstances and, in doing so, challenge management regarding the appropriateness of the <b>assumptions</b> used:</p> <ul style="list-style-type: none"> <li>• When there is a change from prior periods in a method, or <b>significant</b> assumption</li> <li>• When the data is not based on new circumstances or new information</li> <li>• When <b>significant</b> assumptions are inconsistent with each other and with those used in other accounting estimates</li> </ul>   | See comment #52   |

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|     |                            |                  | or with related assumptions used in other areas of the entity’s business activities  |   |
|     |                            |                  | Comment: The use of “assumption” and “significant assumption” appears to be inconsistent within same paragraph.<br>Recommendation: Include “significant” before the first instance   |   |
| A58 | Nodes\A101                 | 28 - KPMG        | <p><b>A101.</b> In the case of <b>fair value accounting estimates</b>, it may be relevant to consider whether adjustments to the output of the model, if any, reflect the assumptions market participants would use in similar circumstances</p> <p>Suggested Revision:</p> <p>A101. In the case of <b>fair value measurements</b>, it may be relevant to consider whether adjustments to the output of the model, if any, reflect the assumptions market participants would use in similar circumstances.</p> | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |

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| A59 | Nodes\A102                 | 18 - GT          | We agree with the guidance provided in this application paragraph, but we believe it could be further enhanced by adding some discussion regarding controls over the data and whether the operating effectiveness of those controls has been tested. We feel such guidance would make the paragraph more complete from an auditor execution perspective. | No change made. TF did not feel strongly that further guidance was needed within this SAS. |

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| A60 | Nodes\\A104                | 28 - KPMG        | <p><b>A104.</b> Even for <b>accounting estimates measured at fair value</b>, there may be variation because different market participants will use different assumptions</p> <p>Suggested Revision:</p> <p>A104. Even for <b>fair value measurements</b>, there may be variation because different market participants will use different assumptions.</p>   | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |
| A61 | Nodes\\A106                | 28 - KPMG        | <p><b>A106.</b> This is often the case for <b>fair value accounting estimates</b> because their measurement objective requires that significant assumptions reflect those used by market participants</p> <p>Suggested Revision:</p> <p>A106. This is often the case for <b>fair value measurements</b> because their measurement objective requires that significant assumptions reflect those used by market participants.</p> | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |

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| A62 | Nodes\A107                 | 17 - NSAA           | Paragraph A107 – We believe the reference to paragraphs A133-A136 should be to paragraphs A134-A137.   | Agreed. Change made.   |
| A63 | Nodes\A110                 | 27 - Hunter college | <p>A110. This paragraph clearly defines estimation uncertainty and measurement uncertainty, however by introducing measurement uncertainty later in the paragraph readers have to re-read the paragraph to understand the relationship between both estimation uncertainty and measurement uncertainty, which happen to be comparable definitions. To avoid confusion and make the reading more efficient, we suggest switching the second and third sentence and making minor changes to the original third sentence as follows:</p> <p style="padding-left: 40px;">Estimation uncertainty is the susceptibility to an inherent lack of precision in measurement. <del>This arises when the required monetary amount for a financial statement item cannot be measured with precision through direct observations of the cost or price. The susceptibility to a lack of precision in measurement is often referred to in accounting frameworks as measurement uncertainty.</del> <b>In accounting frameworks, this is referred to as measurement uncertainty.</b> This arises when the required monetary amount for a financial statement item cannot be measured with precision through direct observations of the cost or price.</p> <p>The rest of A110, including the fourth sentence and bullet points a, b, and c, should remain the same as it perfectly</p> | Not every accounting framework may use “measurement uncertainty” therefore use of “often referred to” is appropriate |

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|     |                            |                  | describes the appropriate steps management should consider to understand and address estimation uncertainty.   |   |
| A64 | Nodes\A113                 | 07- WA state     | We are unclear whether paragraphs 36 and A113 are intended to impose an additional requirement or expectation above the requirement of AU-C 700 paragraph 16. For example, estimation uncertainty disclosures are not required by GASB or by most special purpose frameworks, and we would not expect auditors to impose them except in the rarest of circumstances. Moreover, these paragraphs are not consistent with the scope of the standard, which is in relation to the applicable financial reporting framework. | Same as comment #70 and comment #8A-15. Discussed at the January 2020 ASB meeting. See proposed edits to paragraph 36.  |
| A65 | Nodes\A117                 | 16 - Virginia    | Paragraph A117 discusses the threat of impairing independence when developing a point estimate or range but does not discuss any recommended safeguards. The ASB should consider adding potential safeguards that auditors could incorporate to reduce the risk of impairing independence.   | No change made. Proposed SAS includes footnote reference to AICPA Code of Professional Conduct (fn 49). Adding further guidance would be outside the scope of this project. |

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| A66 | Nodes\\A126                | 13 - Wipfli and Mind the GAAP | <p>We found one example in the Exposure Draft where more clarity would be helpful. The first sentence of paragraph A126 states “The size of the auditor’s range may be multiples of materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income), and this measure is relatively small in relation to assets or other balance sheet measures.” However, this paragraph provides no guidance around an appropriate auditor’s range when materiality is based on balance sheet measures or a blend of balance sheet measures and operating results.</p> <p>As written, we are unsure as to what auditor’s range would be appropriate when materiality is based on balance sheet measures or a blend of balance sheet measures and operating results. It would be helpful if the final guidance could provide additional commentary on this situation.</p> | <p>The TF believes that the content in paragraph A126 is sufficient as drafted because this situation described may arise. The TF believes that this SAS is not the right place to address questions relating to the determination of materiality or ranges of materiality.</p> <p>The TF is not proposing any changes to paragraph A126.<br/>         [same as comment #8A-25]</p> |
| A67 | Nodes\\A126                | 18 - GT                       | <p>We are concerned that, as written, this paragraph could imply that industry is the main driving source of estimation uncertainty in accounting estimates. We do not agree with this premise and believe the standard would be improved by removing “or in certain industries, such as insurance or banking,” from this paragraph. We believe this edit would maintain the clarity of the application guidance while</p>  | <p>Agreed. Removed.</p>   |

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|     |                            |                  | eliminating the potential unintended implication regarding industry.   |   |
| A68 | Nodes\A128                 | 11 - Deloitte    | <p>We believe the last bullet included within application paragraph A128, which was moved to the proposed SAS from application paragraph A15 of AU-C section 501, should be reworded. If a valuation of derivative instruments or securities is based on assumptions that are highly subjective or sensitive in nature, it is likely that there will only be one reliable pricing source. In these cases, we may expect the auditor to test how management made the valuation rather than obtain estimates from more than one pricing source. We propose the following edit as a result:</p> <p style="padding-left: 40px;">A128. . . When, for derivative instruments or securities,</p> <ul style="list-style-type: none"> <li>— a pricing source has a relationship with an entity that might impair its objectivity, such as an affiliate or a counterparty involved in selling or structuring the product, or</li> <li><del>— a valuation is based on assumptions that are highly subjective or particularly sensitive to changes in the underlying circumstances</del></li> </ul> <p>the auditor may determine that it is necessary to obtain estimates from more than one pricing source.</p> | See edit made to paragraph A128. Same as comment #8C-25 in agenda item 2C |

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| A69 | Nodes\\A128                | 28 - KPMG        | Extant paragraph A15 of AU-C section 501 is now in paragraph A128 of the Proposed Standard – We are unclear as to how “Proposed SAS Audit Evidence” is relevant when the external information source uses its own models. We also note that the wording of paragraph A128 is different than paragraph A132 such that we are unclear as to whether execution is intended to be different as well.   | Same as comment #8C-27 in agenda item 2C  |
| A70 | Nodes\\A129                | 10 - RSM US LLP  | We agree that the guidance from application paragraphs .A11, .A12 and .A14 through .A19 of AU-C section 501 has been included in the proposed SAS. However, to ensure that the guidance from the last sentence of application paragraph .A13 of AU-C section 501 is included in the proposed SAS, we suggest adding “Quoted market prices obtained from active markets generally provide sufficient evidence of the fair value of securities.” in application paragraph .A129 of the proposed SAS after “Examples of sources related to (a) and (b) for derivative instruments and securities listed on national exchanges or over-the-counter (OTC) markets include financial publications, the exchanges, NASDAQ, or pricing services based on sources such as those.” | TF intentionally did not include the sentence because the terminology is outdated. This content may be considered as part of AU-C 501 project.<br><br>No change proposed. |

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| A71 | Nodes\\A129                | 27 -Hunter college | <p>A129. Changes are suggested for paragraph A129, specifically a portion of the paragraph located after bullet d, to eliminate irrelevant words and improve the flow of the sentence structure.</p> <p>For derivative instruments and securities, if quoted market prices are not available, estimates of fair value <del>frequently</del> may be obtained <del>from, for example, broker-dealers, or other third party sources,</del> <b>from third-party sources, such as broker-dealers</b>, based on proprietary valuation models, or from the entity, based on internally or externally developed valuation models (for example, the Black-Scholes option-pricing model)</p> | <p>Proposed edit changes the meaning of the paragraph.</p> <p>No change made.</p>  |
| A72 | Nodes\\A129                | 28 - KPMG          | <p><b>A129.</b> For <b>fair value accounting estimates</b>, additional considerations of the relevance and reliability of information obtained from external information sources may include the following:.....</p> <p>When the <b>fair value measurement</b> is based..... For derivative instruments and securities, if quoted market prices are not available, estimates of fair value.....</p>  | <p>No change made.</p> <p>At the January 2020 ASB meeting, the ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair</p> |

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|     |                            |                  | <p>Suggested Revision:</p> <p>Change first instance. Second part included as an example of inconsistent use of terminology in the same paragraph.</p> <p>A129. For fair value measurements, additional considerations of the relevance and reliability of information obtained from external information sources may include the following:...</p>   | <p>value measurement” because the latter term may imply a narrower view of what is intended to be included.</p> |
| A73 | Nodes\A129                 | 28 - KPMG        | <p>Extant paragraphs A13 and A14 of AU-C section 501 are now in paragraph A129 of the Proposed Standard – The content is accurate in that estimates of fair value [for market prices] may be obtained from other sources and that “using such a price quote to test valuation assertions may require special knowledge to understand the circumstances in which the quote was developed”. However, unlike the PCAOB’s special topics appendix to AS 2501, the Proposed Standard does not provide guidance on how such knowledge may be obtained. Further, it is not clear how the content of this application paragraph regarding the relevance and reliability of fair value of trades relates to the content in paragraph A128 regarding alternative sources, using multiple sources and evaluating an entity’s relationship with the third party source in determining whether it is necessary to obtain information from more than one pricing source.</p> | <p>To be considered holistically as part of the AU-C 501 project.</p>   |

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| A74 | Nodes\A131                 | 28 - KPMG        | <p>Specifically, there appears to be a conflict between the guidance in Paragraph 30 of the Exposure Draft and related application material in paragraph A131. In particular, we note that paragraph 30 appears to suggest that the nature, timing and extent of further audit procedures to evaluate the work of a management’s specialist (including any assumptions developed by the specialist) can be scaled using factors enumerated in the paragraph (paragraph text included for context):</p> <p style="padding-left: 40px;"><i>30. When using the work of a management’s specialist, the requirements in paragraphs 20–28 of this proposed SAS may assist the auditor in evaluating the appropriateness of the specialist’s work as audit evidence for a relevant assertion in accordance with AU-C section 500. In evaluating the work of the management’s specialist, the nature, timing, and extent of the further audit procedures are affected by the auditor’s evaluation of the specialist’s competence, capabilities, and objectivity, the auditor’s understanding of the nature of the work performed by the specialist, and the auditor’s familiarity with the specialist’s field of expertise. (Ref: par. A127–A133)</i></p> <p>However, the related application material in paragraph A131 appears to suggest a different approach whereby assumptions identified by a management’s specialist become</p> | See response to comment #61 |

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|  |                            |                  | <p>management’s assumptions and should be audited using the relevant requirements in the Proposed Standard without any reference to the specialists guidance in AU-C section 500 (paragraph text included for context):</p>  |                            |
|  |                            |                  | <p><i>A131. Assumptions relating to accounting estimates that are made or identified by a management’s specialist become management’s assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this proposed SAS to those assumptions.</i></p>  |                            |
|  |                            |                  | <p>The confusion as to the treatment of assumptions identified by a management’s specialist is compounded by the fact that the corresponding application material for the methods and data used by a management’s specialist is constructed differently and makes a specific reference to AU-C 500 as the primary source of requirements for auditing these elements of an accounting estimate (paragraph included for context):</p> |                            |
|  |                            |                  | <p><i>A132. If the work of a management’s specialist involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this proposed SAS may assist the auditor in applying AU-C section 500.</i></p>                       |                            |
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|  |                            |                  |  |                            |
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|  |                            |                  | <p>We do not understand the Board’s expectations for these two application material paragraphs as they appear to be contradicting each other. We recognize that the Board has not yet considered the PCAOB’s new requirements for the auditor’s use of the work of management’s specialists but highlight that we believe that the approach articulated in the above-referenced paragraph A131 of the Proposed Standard is inconsistent with the approach adopted by the PCAOB, which clearly distinguishes between those assumptions used by a management’s specialist that were developed by the specialist and those that were developed by management and provided to the specialist and includes clear instructions for scaling the nature, timing and extent of the further audit procedures for evaluating assumptions developed by the management’s specialist.</p> |                            |
|  |                            |                  |   |                            |
|  |                            |                  |   |                            |
|  |                            |                  | <p>We further note that the PCAOB’s new standards for both using the work of a management’s specialist and the auditor’s supervision of his/her own specialist provide useful clarity as to what standards (the estimate standard or the specialists standards) should be followed in specific situations when auditing an accounting estimate. We believe that application of the Board’s standards would benefit from similar clarity through further convergence of specific requirements with the PCAOB standards.</p>  |                            |
|  |                            |                  |   |                            |

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|-----|----------------------------|------------------|--|------------------------------|
| A75 | Nodes\A132                 | 28 - KPMG        | <p>Specifically, there appears to be a conflict between the guidance in Paragraph 30 of the Exposure Draft and related application material in paragraph A131. In particular, we note that paragraph 30 appears to suggest that the nature, timing and extent of further audit procedures to evaluate the work of a management’s specialist (including any assumptions developed by the specialist) can be scaled using factors enumerated in the paragraph (paragraph text included for context):</p> <p style="padding-left: 40px;"><i>30. When using the work of a management’s specialist, the requirements in paragraphs 20–28 of this proposed SAS may assist the auditor in evaluating the appropriateness of the specialist’s work as audit evidence for a relevant assertion in accordance with AU-C section 500. In evaluating the work of the management’s specialist, the nature, timing, and extent of the further audit procedures are affected by the auditor’s evaluation of the specialist’s competence, capabilities, and objectivity, the auditor’s understanding of the nature of the work performed by the specialist, and the auditor’s familiarity with the specialist’s field of expertise. (Ref: par. A127–A133)</i></p> <p>However, the related application material in paragraph A131 appears to suggest a different approach whereby assumptions identified by a management’s specialist become management’s assumptions and should be audited using the</p> | See response to comment # 61 |

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|  |                            |                  | <p>relevant requirements in the Proposed Standard without any reference to the specialists guidance in AU-C section 500 (paragraph text included for context):</p>   |                            |
|  |                            |                  | <p><i>A131. Assumptions relating to accounting estimates that are made or identified by a management's specialist become management's assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this proposed SAS to those assumptions.</i></p>  |                            |
|  |                            |                  | <p>The confusion as to the treatment of assumptions identified by a management's specialist is compounded by the fact that the corresponding application material for the methods and data used by a management's specialist is constructed differently and makes a specific reference to AU-C 500 as the primary source of requirements for auditing these elements of an accounting estimate (paragraph included for context):</p> |                            |
|  |                            |                  | <p><i>A132. If the work of a management's specialist involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this proposed SAS may assist the auditor in applying AU-C section 500.</i></p>                       |                            |
|  |                            |                  |  |                            |
|  |                            |                  |  |                            |

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|  |                            |                  | <p>We do not understand the Board’s expectations for these two application material paragraphs as they appear to be contradicting each other. We recognize that the Board has not yet considered the PCAOB’s new requirements for the auditor’s use of the work of management’s specialists but highlight that we believe that the approach articulated in the above-referenced paragraph A131 of the Proposed Standard is inconsistent with the approach adopted by the PCAOB, which clearly distinguishes between those assumptions used by a management’s specialist that were developed by the specialist and those that were developed by management and provided to the specialist and includes clear instructions for scaling the nature, timing and extent of the further audit procedures for evaluating assumptions developed by the management’s specialist.</p> |                            |
|  |                            |                  |   |                            |
|  |                            |                  |   |                            |
|  |                            |                  | <p>We further note that the PCAOB’s new standards for both using the work of a management’s specialist and the auditor’s supervision of his/her own specialist provide useful clarity as to what standards (the estimate standard or the specialists standards) should be followed in specific situations when auditing an accounting estimate. We believe that application of the Board’s standards would benefit from similar clarity through further convergence of specific requirements with the PCAOB standards.</p>  |                            |
|  |                            |                  |   |                            |

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| A76 | Nodes\A135                 | 27 - Hunter college | <p><b><i>Comments Pertaining to Lack/Insufficiency of Examples</i></b></p> <p>A135. Paragraph A135 explains and provides examples of indicators of possible management bias, but by mentioning that indicators of possible management bias do not constitute misstatements and stating that audit evidence may point to a misstatement rather than simply an indicator of management bias, without further elaborating on how to determine whether indicators of management bias are reasonable or misstated, readers will be confused as to when this is the case. The lack of examples makes the passage hard to follow as one is left wondering when an indicator of management bias is reasonable or misstated. Examples for each bullet located right under each bullet in paragraph A135 would be helpful.</p> | No change made. TF believes any further examples should be done through audit guides |
| A77 | Nodes\A140                 | 14 - NYSSCPA        | <p>(b) Although paragraph A140 of the proposed SAS states that “the difference between the auditor’s point estimate and management’s point estimate” and “the difference between management’s point estimate and the nearest point of the auditor’s range” each constitute a misstatement, we believe each of those statements should be qualified by adding “provided the auditor has obtained sufficient and appropriate evidence to conclude the auditor’s estimate is sufficiently precise and reliable and the difference is material.”</p>   | No change made. TF believes the introduction to the paragraph adequately covers      |

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| A78 | Nodes\A140                 | 14 - NYSSCPA     | <p>Auditors often establish point or range estimates by using variable sampling techniques. We believe the adjustment guidance in paragraph A140 of the proposed SAS (discussed above in part (f) of our response to this Question and under the caption “Other Comments” below) appears somewhat inconsistent with paragraph A28 of AU-C 530, Audit Sampling, which provides, in part, as follows:</p> <p>“If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population being tested the auditor may;</p> <ul style="list-style-type: none"> <li>• request management to investigate the misstatements that have been identified and the potential for further misstatement and to make any adjustments or</li> <li>• tailor the nature timing and extent of those further procedures to achieve the required assurance.”</li> </ul> <p>Subject to our other comments in this letter about paragraph A140 of the proposed SAS, we believe the adjustment guidance in that paragraph is appropriate when the auditor believes its estimates are reliable and they differ materially from the clients’ estimates. However, we believe the paragraph should refer auditors to AU-C 530.A28 when their estimates are based on sampling and the Board should amend AU-C 530, accordingly, to indicate that one of the foregoing alternative courses of action should be taken before proposing any adjustment.</p> | <p>Comment included comment #78</p> <p>TF believes that the reasonableness of a point estimate and sampling are different concepts. No change proposed.</p> <p>TF believes the considerations for estimates compared to those of sampling are different and estimates would not be based on audit sampling.</p> <p>No changes proposed.</p> |

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| A79 | Nodes\A146                 | 11 - Deloitte    | <p>Specifically reference AU-C section 580, <i>Written Representations</i>, in the application paragraph to more clearly draw the link between the accounting estimate requirements in that respective section that have been included as part of the proposed amendments.</p> <p>A146. Part of the auditor’s audit evidence <b>obtained about accounting estimates, as required by AU-C section 580, <i>Written Representations</i></b>, includes obtaining representations from management about whether management believes the methods, significant assumptions, and data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with the applicable financial reporting framework.</p> | Agreed. See change made to paragraph A146.                     |
| A80 | Nodes\A146                 | 17 - NSAA        | <p><i>Paragraph A146</i></p> <p>We request the ASB consider whether the placement of this application guidance (relating to written representations), which is currently referenced to paragraph 35—<i>Determining Whether the Accounting Estimates are Reasonable or Misstated</i>, should instead be placed as application guidance to either paragraph 29 (under the section for <i>Other Considerations Relating to Audit Evidence</i>) or paragraph 38—<i>Audit Documentation</i>.</p>   | Reference is consistent with extant placement. No change made. |

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|-----|----------------------------|------------------|--|---|
| A81 | Nodes\A146                 | 28 - KPMG        | <p>Written Representations</p> <p>A146. Part of the auditor’s audit evidence includes obtaining representations from management about whether management believes the methods, <b>significant assumptions</b>, and the data used in.....</p> <p>Recommendation: No change.</p>   | <p>No change proposed.</p> <p>See comment #52</p>   |
| A82 | Nodes\A148                 | 07- WA state     | <p>Paragraph A148 gives additional examples of deficiencies in controls which may be significant deficiencies or material weakness. These examples would be more appropriately located as part of the Appendix to AU-C 265, which they currently are not.</p>  | <p>TF preference is to retain the structure of ISA 540 (Revised) and not move content to AU-C 265. No change made.</p>  |
| A83 | Nodes\A148                 | 11 - Deloitte    | <p>Include a paragraph in the proposed SAS that is similar to paragraph A148 from ISA 540 (Revised). We believe this paragraph may be relevant in certain circumstances, particularly relating to U.S. governmental entities.</p> <p><b>A148A. In addition to communicating with those charged with governance, the auditor may be permitted or required to communicate directly with regulators. Such communication may be useful throughout the audit or at particular stages, such as</b></p> | <p>ASB concluded not to include A148 because there are no situations in the U.S. in which an auditor is required to communicate with a regulator. No change made.</p> |

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|     |                            |                  | <b>when planning the audit or when finalizing the auditor’s report. For example, for governmental entities, when material federal or state grant awards are received, there may be situations where the auditor seeks communication with the regulator in instances of noncompliance or fraud-related matters involving grant awards.</b>  |   |
| A84 | Nodes\A148                 | 17 - NSAA        | <i>Paragraph A148</i><br>This paragraph gives additional examples of deficiencies in controls which may be significant deficiencies or material weakness; however, these deficiencies do not appear to be exclusively related to accounting estimates. Therefore, we believe these examples would be more appropriately located as part of the Appendix to AU-C 265, which they currently are not.   | Same as comment #A82  |
| A85 | Nodes\A148                 | 28 - KPMG        | <b>Communication with Those Charged with Governance, Management, or Other Relevant Parties</b><br>A148. AU-C section 265 requires the auditor to communicate in writing to those charged with governance significant deficiencies and material weaknesses in internal control identified during the audit. Deficiencies in controls, which may also be significant deficiencies or material weaknesses, may include those related to controls over | No change proposed<br>See comment #52 –TF reviewed use of “assumptions” and believe use is appropriate. |

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|     |                            |                  | <p>a. the selection and application of significant accounting policies and the selection and application of methods, <b>assumptions</b>, and data,</p> <p>b. risk management and related systems,</p> <p>c. data integrity, including when data is obtained from an external information source, and</p> <p>d. the use, development, and validation of models, including models obtained from an external provider, and any adjustments that may be required.</p> <p>Recommendation: No change.</p>  |  |
| A86 | Nodes\A151                 | 28 - KPMG        | <p>Documentation</p> <p>A151. The auditor also may consider documenting the following: .....</p> <ul style="list-style-type: none"> <li>When the selection and application of methods, <b>significant</b> assumptions, or the data is affected by complexity to a higher degree, the auditor’s judgments in determining whether specialized skills or knowledge are required to perform the risk assessment procedures, to design and perform procedures responsive to those risks, or to evaluate the audit evidence obtained. In these circumstances, the documentation also may include how the required skills or knowledge were applied.</li> </ul> <p>Recommendation: No change.</p> | <p>No change proposed</p> <p>See comment #52</p> |

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| A87 | Nodes\A153 - App A (IRF)   | 18 - GT          | <p><b>Appendix A</b></p> <p>We encourage the Board to retain Appendix A, “Inherent Risk Factors,” in the final standard. We believe this information is helpful and will enable auditors to better understand inherent risk factors and their interrelationship in the context of auditing accounting estimates. However, we propose two areas that could benefit from additional clarification.</p> <p>First, while we agree that the appendix appropriately describes the inherent risk considerations related to estimates (that is, estimation uncertainty, subjectivity, and complexity), we believe it is important from a comprehensive perspective to state in the introductory paragraphs that there may be engagement circumstances that could affect an auditor’s inherent risk assessment. For example, a company environment where management has little experience in developing a particular estimate and the related procedures and controls are not well-defined would likely impact the nature, timing, and extent of the audit response, as opposed to an environment where management has well-proven experience, processes, and controls. We recommend the Board add language and an example that illustrates this principle in paragraph two of the appendix.</p> <p>Second, we note that paragraph 23 concludes by indicating that “there may be additional judgments that involve subjectivity to be made.” It is unclear to us whether these judgments are referring to the auditor’s judgment of the inherent risk factors or to management’s judgment in determining whether and how recognition of an accounting</p> | <p>No change made. TF believes this section is consistent with GAAS and controls should not be considered as part of inherent risk</p> <p>No change made. TF notes that inherent risk is an auditor judgment.</p> |

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|     |                            |                     | estimate aligns with the applicable financial reporting framework. Therefore, we ask the Board to consider clarifying the last sentence of the paragraph.  |  |
| A88 | Nodes\A153 - App A (IRF)   | 27 - Hunter college | <p><b><i>General Comments on Appendix A - Inherent Risk Factors</i></b></p> <p>How do Inherent Risk and Estimation Uncertainty Relate?</p> <p>We believe that the auditing standards board should look further into the relationship between “inherent risk” and “estimation uncertainty” to avoid confusion in this long exposure draft. The passages definition makes it seem as if inherent risk and estimation uncertainty mean the same thing, but they do not. Inherent risk “is the susceptibility of an assertion about the accounting estimate to material misstatement, before consideration of controls.” Estimation uncertainty is defined in this proposed SAS as “susceptibility to an inherent lack of precision in measurement.” Although the passage considers “estimation uncertainty” (referred to as “measurement uncertainty” in accounting frameworks) as an inherent risk factor which arises as a challenge in making accounting estimates, it is the constraints of the estimation uncertainty that should be considered inherent risk factors, not the susceptibility to lack of precision in measuring accounting estimates. The reason for this is certain constraints are capable of being eliminated during the measurement process if the right application of method is used. If such constraints are eliminated, this lack of</p> | No change made. TF believes proposed SAS should avoid unnecessary differences from ISA 540 (Revised) |

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|     |                            |                  | measurement is defined as a potential misstatement and not estimation uncertainty.  |                            |
|     |                            |                  | In addition, certain constraints are inherent because they cannot be eliminated from the measurement process. Consequently by classifying constraints as sources of inherent risk and not estimation uncertainty, the term “estimation uncertainty” can capture the general concept of lack of measurement in determining accounting estimates, whereas the term “inherent risk” can focus more on the reasoning as to why there may be possible uncertainty accounting estimates, relating to complexity, subjectivity, the selection and application of the methods, assumptions, data, the selection of management's point estimate, and other factors that arise other than the failure of controls. The passage does a great job in mentioning these details, but fails to expand on this crucial information. |                            |
| A89 | Nodes\\A154 - App B (TCWG) | 07- WA state     | Guidance in paragraph A154 includes a number of matters for auditors to consider communicating to those charged with governance regarding qualitative aspects of accounting estimates that appear to be very detailed explanations of the   | See issue in agenda item 2 |

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|     |                            |                  | methodology. If an estimate and details about the methodology are so consequential, and management has not already communicated such matters to the governing body, then it may be more appropriate to communicate such matters as part of a control deficiency rather than as the auditor's views about significant qualitative aspects of accounting practices.   |                            |
| A90 | Nodes\\A154 - App B (TCWG) | 16 - Virginia    | vi. There are several items included in the guidance in paragraph A154 (Appendix B) discussing communications with those charged with governance that give the impression that the auditor should be explaining the methodology behind significant estimates in great depth, which should be management's responsibility. Auditors' communication with those charged with governance should be limited to explaining which estimates are significant, changes in methodology from the prior year, any disagreements with management regarding the estimates, and where management discloses them in the financial statements. | See issue in agenda item 2 |
| A91 | Nodes\\A154 - App B (TCWG) | 17 - NSAA        | <i>Paragraph A154</i><br>There are several items included in the guidance in this paragraph discussing communications with those charged with governance that give the impression that the auditor  | Same as comment #90        |

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|     |                            |                  | should be explaining the methodology behind significant estimates in great depth, which should be management’s responsibility. Auditors’ communication with those charged with governance should be limited to explaining which estimates are significant, changes in methodology from the prior year, any disagreements with management regarding the estimates, and where management discloses them in the financial statements.   |                            |
| A92 | Nodes\\A154 - App B (TCWG) | 17 - NSAA        | <p>Paragraphs 25-26</p> <p>These paragraphs require the auditor to address whether management has (or to request management do so if they have not) taken appropriate steps to: a. understand estimation uncertainty and b. address estimation uncertainty by selecting an appropriate point estimate and by developing related disclosures about estimation uncertainty. In addition, paragraph 38c requires the auditor to document responses when management has not taken appropriate steps to understand and address estimation uncertainty. Therefore, we recommend the ASB include the following guidance:</p> <ul style="list-style-type: none"> <li>• Adding bulleted items to A154—Appendix B to specifically address communication to those charged with governance for when management has not taken appropriate steps to understand and/or address estimation uncertainty through appropriately selecting management’s point estimate and related disclosures describing the estimation uncertainty.</li> </ul> | See issue in agenda item 2 |

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| A93 | Nodes\A154 - App B (TCWG)  | 18 - GT          | <p><b>Appendix B</b></p> <p>We support the content included in Appendix B, “Communications with Those Charged with Governance”; however, we believe that this appendix would be more helpful if it were located in AU-C section 260, <i>The Auditor’s Communications with Those Charged with Governance</i>. When reading Appendix B, we noted some overlap in content with AU-C section 260; for example, we noted that the following bullets that appear in Appendix B are also addressed in the application guidance in AU-C section 260:</p> <ul style="list-style-type: none"> <li>• How management identifies transactions, other events, and conditions that may give rise to the need for or changes in accounting estimates and related disclosures</li> <li>• Risks of material misstatement</li> <li>• Indicators of possible management bias</li> <li>• The nature and consequences of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions</li> <li>• The reasonableness of disclosures about estimation uncertainty in the financial statements</li> <li>• Whether management’s decisions relating to the recognition, measurement, presentation, and disclosure of the accounting estimates and related disclosures in the financial statements are in accordance with the applicable financial reporting framework</li> </ul> |                            |

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|     |                            |                  | We further note that there is a section titled “Accounting Estimates” within the Appendix, “Qualitative Aspects of Accounting Practices,” in AU-C section 260 that could potentially be enhanced by combining the existing content of the appendix in AU-C section 260 with the incremental guidance proposed in Appendix B that has not already been addressed in the application guidance noted above. This move could reduce the duplication and, in our view, better position this guidance in AU-C section 260. |                            |
| A94 | Nodes\\A154 - App B (TCWG) | 20 - Eide Bailly | Paragraph .A154 discusses required communications with those charged with governance. There are required communications regarding estimates in general, and significant assumptions of estimates, but does not appear to have a specific requirement to communicate “significant estimates”. We believe the guidance should more clearly distinguish the requirement to identify significant estimates.  | TF to consider comments.   |
| A95 | Nodes\\A154 - App B (TCWG) | 28 - KPMG        | Appendix B - Communications with those charged with Governance<br><br>Matters that the auditor may consider communications with those charges with governance with respect to the auditor’s views about significant qualitative aspects of the entity’s accounting practices related to accounting estimates and related disclosures include the following: .....  | See comment #52            |

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|-----|--|------------------|--|--|
|     |  |                  | <ul style="list-style-type: none"> <li>• The nature and consequences of <b>significant assumptions</b> used in accounting estimates and the degree of subjectivity involved in the development of the assumptions</li> <li>• Whether <b>significant assumptions</b> are consistent with each other and with those used in other accounting estimates or with <b>assumptions</b> used in other areas of the entity’s business activities</li> <li>• When relevant to the appropriateness of the significant assumptions or the appropriate application of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so</li> <li>• How management has considered alternative <b>assumptions</b> or outcomes and why it has rejected them or how management has otherwise addressed estimation uncertainty in making the accounting estimate</li> <li>• Whether the data and <b>significant assumptions</b> used by management in making the accounting estimates are appropriate in the context of the applicable financial reporting framework</li> </ul> <p>Recommendation: No change.</p> |  |
| A96 | Nodes\\A155 - App C - Amendments\ AU-C 200 | 07- WA state     | <p><i>Other comments regarding proposed amendments to AU-C 200</i></p> <p>We disagree with having different audit requirements for inherent and control risk for accounting estimates</p>  | To be considered as part of the 315 project. |

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|     |  |                  | only. Inherent risk, control risk and the risk of material misstatement are concepts that are not unique to accounting estimates. It is inconsistent and confusing to have different requirements and discussion regarding these foundational concepts for a single application only.  |  |
| A97 | Nodes\A155 - App C - Amendments\AU-C 230 | 07- WA state     | <p><i>Other comments regarding proposed amendments to AU-C 230 and AU-C 580</i></p> <p>AU-C 580 extant paragraphs 6 and 8 already address the need for the auditor to consider whether it is appropriate to obtain representations from those charged with governance. We do not think it is appropriate to duplicate this consideration for a single item. If the Board wishes to emphasize this consideration for estimates, it should do so in the application material.</p> <p>We would also encourage the Board to consider rephrasing AU-C 230 paragraph A12 and AU-C 580 paragraph 16 with the corresponding illustrative representation to read “...reasonable <u>in accordance with</u> the applicable financial reporting framework...” rather than “...reasonable <u>in context of</u> the applicable financial reporting framework...”</p> | <p>Extant currently includes estimate specific representations. These amendments update 580 to the new standard. ASB supported this structure for the SAS. No change made.</p> <p>TF supports aligning with ISA 540 (Revised). No change made.</p> |

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| A98  | Nodes\A155 - App C - Amendments\ AU-C 240 | 07- WA state     | <p><i>Other comments regarding proposed amendments to AU-C 240</i></p> <p>As noted above, the provisions of AU-C 240 which require a retrospective review as a substantive procedure only for “significant accounting estimates” would seem to be nullified by and the proposed requirements which require a retrospective review as a risk assessment procedure for all accounting estimates.</p>     |  |
| A99  | Nodes\A155 - App C - Amendments\ AU-C 240 | 17 - NSAA        | <p>Amendments to AU-C 240</p> <p>As noted above (see item c in comment relating to paragraph 13), the provisions of AU-C 240 which require a retrospective review as a substantive procedure only for “significant accounting estimates” would seem to be nullified by the proposed requirements which require a retrospective review as a risk assessment procedure for all accounting estimates.</p> | Same as comment #A98   |
| A100 | Nodes\A155 - App C - Amendments\ AU-C 240 | 17 - NSAA        | AU-C Section 240, paragraph .A53, footnote 20 – We believe this footnote should reference paragraph 13 (rather than 14) of the proposed SAS.   | Footnote reference will need to be updated to final SAS, once final. |

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| A101 | Nodes\\A155 - App C - Amendments\ AU-C 240 | 19 - EY          | <p>We recommend expanding the requirements of the discussion among the key engagement team members in paragraph 15 of AU-C Section 240 to include the following:</p> <p><b><u>f. how the financial statements could be manipulated through management bias in accounting estimates and related disclosures.</u></b></p> <p>We believe this additional requirement would be consistent with a key concept of the proposed SAS. Enhanced professional skepticism is important when there is a greater risk of misstatement due to management bias or fraud.</p> | TF believes this proposed change is beyond the scope of a conforming change. No change made. |
| A102 | Nodes\\A155 - App C - Amendments\ AU-C 260 | 07- WA state     | <p><i>Other comments regarding proposed amendments to AU-C 260</i></p> <p>As noted above, the discussion of accounting estimates as examples of qualitative aspects of the entity's significant accounting practices is most appropriately located in the application guidance and in the Appendix to this section, as proposed. This guidance renders it unnecessary to repeat in AU-C 540.</p>  | ASB continued to support the structure of the SAS and repetition of other SAS.               |
| A103 | Nodes\\A155 - App C - Amendments\ AU-C 580 | 07- WA state     | <p>Other comments regarding proposed amendments to AU-C 230 and AU-C 580</p> <p>AU-C 580 extant paragraphs 6 and 8 already address the need for the auditor to consider whether it is appropriate to</p>  | Same as comment #A97   |

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|------|--|------------------|---|---|
|      |  |                  | <p>obtain representations from those charged with governance. We do not think it is appropriate to duplicate this consideration for a single item. If the Board wishes to emphasize this consideration for estimates, it should do so in the application material.</p> <p>We would also encourage the Board to consider rephrasing AU-C 230 paragraph A12 and AU-C 580 paragraph 16 with the corresponding illustrative representation to read "...reasonable in accordance with the applicable financial reporting framework..." rather than "...reasonable in context of the applicable financial reporting framework..."</p> |   |
| A104 | Nodes\A155 - App C - Amendments\AU-C 580 | 17 - NSAA        | <p><i>Amendments to AU-C 580 (page 100)</i></p> <p>AU-C 580 extant paragraphs 6 and 8 already address the need for the auditor to consider whether it is appropriate to obtain representations from those charged with governance. We do not think it is appropriate to duplicate this consideration for a single item. If the ASB wishes to emphasize this consideration for estimates, it should do so in the application material.</p>   | <p>This is consistent with extant and where this guidance is placed. ASB continues to support structure of the SAS. No change made.</p> |

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| A105 | Nodes\A155 - App C - Amendments\AU-C 580 | 17 - NSAA        | <p>Paragraphs 25-26</p> <p>These paragraphs require the auditor to address whether management has (or to request management do so if they have not) taken appropriate steps to: a. understand estimation uncertainty and b. address estimation uncertainty by selecting an appropriate point estimate and by developing related disclosures about estimation uncertainty. In addition, paragraph 38c requires the auditor to document responses when management has not taken appropriate steps to understand and address estimation uncertainty. Therefore, we recommend the ASB include the following guidance:</p> <p style="padding-left: 40px;">Adding bulleted items to A154—Appendix B to specifically address communication to those charged with governance for when management has not taken appropriate steps to understand and/or address estimation uncertainty through appropriately selecting management’s point estimate and related disclosures describing the estimation uncertainty.</p> <p style="padding-left: 40px;">Adding bulleted items to 580.A13 at A155—Appendix C for obtaining representations regarding the extent of management’s performance of procedures, if any, to understand and address estimation uncertainty; especially for those accounting estimates involving a high degree of estimation uncertainty.</p> | No change made. TF believes the proposed SAS should align with ISA 540 (Revised). Proposed changes would be beyond the scope of a conforming amendment. |

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