



November 22, 2019

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA's proposed statement of auditing standards *Auditing Accounting Estimates and Related Disclosures*.

Our responses to the specific requests for comments posed in the exposure draft follow:

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

We did not identify any examples or terminology in the proposed SAS that would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.

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

Yes, we believe the proposed SAS sufficiently describes the key concepts and adequately explains the interplay between the proposed SAS and other AU-C sections.

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

We agree with the approach to the proposed changes to AU-C 501.

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

Yes, we believe the proposed effective date provides sufficient time for the adoption and implementation of the new standard and related conforming amendments.

In addition to our feedback on the specific questions in the exposure draft, we have additional comments we believe the Board should consider as it finalizes this document.

Paragraph 1 (footnote 1)

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.



Paragraph 3

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:

- 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).
- 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.
- 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.

Paragraph 10 and others

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.

Paragraphs 12f and A33

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.

Paragraphs 12-14

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.

Paragraphs 25-26

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:

- 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.
- 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.

Paragraphs 36 and A113

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.

Paragraph A148

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.

Paragraph A154

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 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.



Paragraph A146

We request the ASB consider whether the placement of this application guidance (relating to written representations), which is currently referenced to paragraph 35—*Determining Whether the Accounting Estimates are Reasonable or Misstated*, should instead be placed as application guidance to either paragraph 29 (under the section for *Other Considerations Relating to Audit Evidence*) or paragraph 38—*Audit Documentation*.

Amendments to AU-C 240

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.

Amendments to AU-C 580 (page 100)

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.

We noted the following incorrect paragraph references:

- Paragraph 12d – We believe the reference to paragraph 13a-c should be to paragraph 12a-c.
- Paragraph 12i – We believe the reference to paragraph 13.h(ii) should be to paragraph 12.h(ii).
- 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).
- Paragraph A7 – We believe the reference to paragraphs A20-A22, A63, A67, and A84 should be A21-A23, A64, A68, and A85.
- Paragraph A22 – We believe the reference to paragraph A20 should be to A21.
- Paragraph A107 – We believe the reference to paragraphs A133-A136 should be to paragraphs A134-A137.
- AU-C Section 240, paragraph .A53, footnote 20 – We believe this footnote should reference paragraph 13 (rather than 14) of the proposed SAS.

We also have the following other editorial comments:

- Paragraph 12h(ii)(2) – we suggest removing “including” or “by”.
- Paragraph A45, fourth bullet – “inprevious” should be “in previous”.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (617) 727-2075.

Sincerely,

Suzanne M. Bump
President, NSAA