

November 21, 2019

Ms. Sherry Hazel  
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New York, NY 10036

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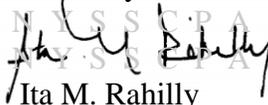
**Re: Proposed Statement on Auditing Standards (SAS)—*Auditing Accounting Estimates and Related Disclosures***

Dear Ms. Hazel:

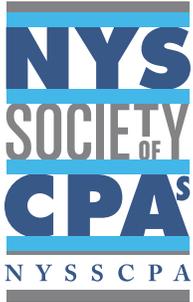
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Auditing Standards Committee deliberated the proposed SAS and prepared the attached comments. If you would like additional discussion with us, please contact Jonathan Zuckerman, Chair of the Auditing Standards Committee, at (212) 867-8000, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
Ita M. Rahilly  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON  
PROPOSED STATEMENT ON AUDITING STANDARDS (SAS)—*AUDITING  
ACCOUNTING ESTIMATES AND RELATED DISCLOSURES***

**November 21, 2019**

**Principal Drafters**

**Julian E. Jacoby  
Howard B. Levy  
Yigal Rechtman**

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### **NYSSCPA Staff**

Ernest J. Markezin

# New York State Society of Certified Public Accountants

## Comments on

### Proposed Statement on Auditing Standards (SAS)—*Auditing Accounting Estimates and Related Disclosures*

We welcome the opportunity to respond to the AICPA Auditing Standards Board's (ASB or the Board) invitation to comment on its exposure draft of Proposed Statement on Auditing Standards—*Auditing Accounting Estimates and Related Disclosures* (proposed SAS or ED).

#### General Comments

We are generally supportive of the proposed SAS.

#### Specific Comments

We offer the following responses to the numbered requests for comment presented by the Board in the ED.

**Question 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)?

**Response:** We noted no 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.

**Question 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?

**Response:** 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.

(a) The proposed SAS states in part in paragraph 3:

“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.”

The proposed SAS suggests that the complexity and subjectivity of an estimate should be assessed separately to have a high or low level of “*uncertainty*.” 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.

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.

- (b) 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:

“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)

- The development of the accounting estimate, including the *selection of the method*, assumptions, and data in view of the nature of the accounting estimate and the facts and circumstances of the entity [*emphasis added*] ...”

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.

- (c) Paragraph 3 of the proposed SAS refers auditors to paragraph A7 for guidance on **scalability**. 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.
- (d) 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.
- (e) Paragraph 8 of the proposed SAS defines **reasonable** 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 paragraph A13, but without regard to the accuracy of the underlying data.

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.”

- (f) Although the proposed requirement for a **separate assessment of inherent and control risks** 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, *especially those measurements involving a wide range of measurement uncertainty [emphasis added].*"

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 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.

- (g) 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:

"If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population being tested the auditor may;

- request management to investigate the misstatements that have been identified and the potential for further misstatement and to make any adjustments or
- tailor the nature timing and extent of those further procedures to achieve the required assurance."

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.

**Question 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.

**Response:** We agree with the approach to the proposed changes to AU-C section 501.

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

**Response:** We believe that the proposed effective date provides sufficient time for preparers, auditors, and others and suggest that early adoption be permissible.

## Other Comments

For your consideration we offer the following additional comments:

- (a) In the **Evaluation of the estimates** 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.

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.

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.

- (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.”

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.