
GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 000 000 0000
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthornton-us)
twitter.com/grantthorntonus

November 21, 2019

Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

Via Email to CommentLetters@aicpa-cima.com

Re: Proposed Statement on Auditing Standards, *Auditing Accounting Estimates and Related Disclosures*

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Statement on Auditing Standards (SAS), *Auditing Accounting Estimates and Related Disclosures*. We support the Board's undertaking to enhance the auditing standard related to accounting estimates, and we agree with the Board's approach to converge this standard with the corresponding international auditing standard. As accounting estimates become more prevalent and complex in financial statements, we believe it is important to have a generally consistent approach to auditing across various jurisdictions so that auditors are not challenged by different requirements for a single, global audit. We respectfully submit our responses to the questions posed in the exposure draft along with other comments, including paragraph-level comments in the appendix to this letter, for the Board's consideration.

Responses to requests for comment

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)?

We agree with the Board's approach to remain framework-neutral in the proposed SAS. We do not note any significant instances where this approach would cause a lack of clarity when considering the requirements and application material in the context of U.S. GAAP.

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?

Because the proposed SAS is more robust than what exists in the current standard, we found paragraphs 2-9 to be helpful in summarizing the key concepts of the proposed SAS. We encourage the Board to retain these paragraphs in the final standard in order to assist auditors in navigating the new requirements.

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.

We support the approach taken by the Board regarding changes to AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*. We believe it would provide greater clarity to auditors and eliminate the need to traverse multiple standards when auditing accounting estimates, particularly fair value measurements. We also support taking the requirements from AU-C section 501 and, in general, adding them as application guidance in the proposed SAS. We believe this approach is appropriate because it makes the standards more principles-based, particularly because the notion of fair value measurements in the accounting standards is no longer considered a new or emerging topic.

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

We believe the proposed effective date provides sufficient time for stakeholders to adopt the new standard and related conforming amendments. Because the Board has proposed the approach of full convergence with the international standards, we believe some efficiencies will be gained for those firms that have already incorporated International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, into their methodologies. Further, we believe the proposed changes would not create a fundamental shift in auditing accounting estimates thereby being overly burdensome for firms that have not yet adopted ISA 540 (Revised).

Other areas of comment

Risk assessment/effective date

We support the changes related to risk assessment in the proposed SAS. We also note that the Board's proposal to converge the U.S. auditing standards with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, is quickly forthcoming. We believe that the changes in the proposed standard, when considered with extant AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, could be perceived as disjointed given that some of the new concepts in the proposed standard are not also covered in extant AU-C section 315. In order for auditors to appropriately implement the potential requirements related to risk assessment, which are likely to be substantial, we strongly recommend that the Board align the effective dates of this proposed standard and the standard that results from the ISA 315 (Revised) project. We believe this

approach would also provide efficiencies for audit firms updating their methodologies in order to avoid multiple revisions to the auditor's approach to risk assessment over different periods.

Appendix A

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.

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.

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 estimate aligns with the applicable financial reporting framework. Therefore, we ask the Board to consider clarifying the last sentence of the paragraph.

Appendix B

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, *The Auditor's Communications with Those Charged with Governance*. 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:

- How management identifies transactions, other events, and conditions that may give rise to the need for or changes in accounting estimates and related disclosures
- Risks of material misstatement
- Indicators of possible management bias
- The nature and consequences of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions

- The reasonableness of disclosures about estimation uncertainty in the financial statements
- 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

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.

We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox, National Managing Partner of Professional Standards, at (312) 602-9080 or Bert.Fox@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix

Paragraph-level comments

Following please find certain paragraph-level comments for the Board's consideration. Suggested edits are shown as ***bolded italics*** for additions.

Paragraph	Comment
.12d	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.
.28	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.
.30	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.
.A31	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.

Paragraph	Comment
.A61	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.
.A73	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.”
.A82	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: ... For example, when several assumptions are used to make an accounting estimate, the auditor may decide to use a different testing approach or combination of testing approaches for each assumption tested.
.A102	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.
.A126	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 eliminating the potential unintended implication regarding industry.