



ILLINOIS CPA SOCIETY

November 21, 2019

AICPA Auditing Standards Board

Sherry Hazel – [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com)

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

Dear Board Members:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with over 24,000 professionals, dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the United States of America. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the “Committee” or “we”) is pleased to comment on the proposed Statement on Auditing Standards: *Auditing Accounting Estimates and Related Disclosures*. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

### **Specific Request for Comment**

**Request for Comment 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)?

*Although we understand the ASB’s intent on the proposed SAS to be framework-neutral, we believe the proposed standard will likely be less relevant to common Special Purpose Frameworks, such as tax-basis, cash-basis, or modified cash basis, since these frameworks typically involve fewer estimates in reporting than U.S. generally accepted accounting principles.*

*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 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.*



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**Request for Comment 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 AUC sections?

*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.*

### **Issues for Consideration**

In drafting the proposed SAS, the ASB identified the following issues for which feedback is specifically requested:

#### **Issue 1 — Interplay with AU-C section 501**

AU-C section 501 addresses specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with AU-C section 330, AU-C section 500, and other relevant AU-C sections regarding, among other things, investments in securities and derivative instruments. The ASB considered whether the content in paragraphs .01–.10 of AU-C section 501 and related application material in paragraphs .A1–.A19 aligned with the proposed SAS and has proposed amendments to eliminate any inconsistencies (see appendix C of the proposed SAS).

Specifically, the ASB has proposed removing paragraphs .06–.10 from AU-C section 501 because the ASB recognized that the requirements in those paragraphs relating to investments in derivative instruments and securities measured or disclosed at fair value were mainly related to performing audit procedures and not related to evaluating audit evidence (and AU-C section 501 is designed to address considerations related to evaluating audit evidence). Furthermore, the ASB concluded that the requirements in those paragraphs are duplicative of the requirements in the proposed SAS and, therefore, should be removed from AU-C section 501. Guidance from paragraphs .A11–.A19 of AU-C section 501 has been included in the proposed SAS. The supplementary materials to this exposure draft include a document that maps paragraphs .A11–.A19 of AU-C section 501 to the proposed SAS.

**Request for Comment 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 believe that the removal of paragraphs .06 - .10 from AU-C section 501 is appropriate, as the requirements related to investments in derivative instruments and securities measured at fair value within this section are more related to performing audit procedures and not related to evaluating audit evidence, as AU-C section 501 requires. However, we question why requirements of other areas cited in this section, specifically the existence and condition of inventory (paragraphs .11 - .15) and completeness of litigation, claims, and assessments (paragraph .16) are also not designated for removal from AU-C section 501, as the requirements for these areas also involve performing audit procedures, that appear to be duplicated in the proposed SAS.*

#### **Issue 2 — Effective date**

If issued as final, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2022.

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



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*As the proposed SAS appears to be an enhancement to existing standards, we believe the effective date will provide sufficient time for all relevant parties to adopt the new standard and related amendments.*

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

**Scott Cosentine, CPA**

Chair, Audit and Assurance Services Committee

**Genevra D. Knight, CPA**

Vice Chair, Audit and Assurance Services Committee



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## APPENDIX A

### AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2019 – 2020

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

#### **Public Accounting Firms:**

##### **National:**

Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Timothy Delany, CPA	RSM US LLP
Jennifer E. Deloy, CPA	Marcum LLP
James J. Gerace, CPA	BDO USA, LLP
Michael R. Hartley, CPA	Crowe LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Huong Nguyen, CPA	PricewaterhouseCoopers LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Amber Sarb, CPA	RSM US LLP
Richard D. Spiegel, CPA	Wipfli LLP
Timothy Van Cott, CPA	Sikich LLP
Daniel Voogt, CPA	Grant Thornton LLP

##### **Regional:**

Michael Ploskonka, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

##### **Local:**

Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	Mueller & Company LLP



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**Industry/Consulting:**

Rosi Hasan, CPA  
Sean Kruskol, CPA

Northern Trust Corporation  
Cornerstone Research

**Educators:**

Meghann Cefaratti, PhD

Northern Illinois University

**Staff Representative:**

Heather Lindquist, CPA

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