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Washington, DC 20548

November 20, 2019

Ms. Sherry Hazel  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27<sup>th</sup> Floor  
New York, NY 10105

**GAO's Response to the American Institute of Certified Public Accountants' August 2019 Exposure Draft, *Proposed Statement on Auditing Standards – Auditing Accounting Estimates and Related Disclosures***

Dear Ms. Hazel:

This letter provides GAO's response to the exposure draft, *Proposed Statement on Auditing Standards – Auditing Accounting Estimates and Related Disclosures*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the American Institute of Certified Public Accountants' Auditing Standards Board's (ASB) efforts to converge the standards for auditing accounting estimates with those of the International Auditing and Assurance Standards Board (IAASB). We agree that the differences between the ASB's proposed standard and the IAASB's standard will not result in substantive differences in application. We are responding to the ASB's questions included in the explanatory memorandum accompanying the exposure draft. In addition, we have noted other revisions and edits that we believe will improve the final standard.

**Requests for Comments**

- 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 instances in which the use of certain examples or terminology in the proposed Statement on Auditing Standards (SAS) 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?**

In our view, paragraphs 2 through 9 of the proposed SAS are helpful in describing the key concepts and adequately explain 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.**

Yes, we agree with removing paragraphs 6 through 10 of AU-C section 501. We agree that the requirements in those paragraphs are duplicative of the requirements in the proposed SAS.

**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 that the proposed effective date for audits of financial statements for periods ending on or after December 15, 2022, would provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.

**Additional Comments**

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:

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.

We believe such additional guidance will assist auditors in applying the standard. We also suggest that the ASB consider the following editorial comments:

- Footnote 18 should reference paragraph .A8 rather than paragraph .A16 of AU-C section 700.
- Paragraph 12*i* should refer to paragraph 12*h*(ii) rather than 13*h*(ii).

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

Sincerely yours,



James R. Dalkin  
Director  
Financial Management and Assurance