

SAG Discussion of Auditing Accounting Estimates and Fair Value Measurements

Bob Herz
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Background on ASC 820 (FAS 157) & IFRS 13

Objectives

Due Process - US and International
Financial Crisis Issues and Guidance

Some Lessons Learned

- Re Accounting and Auditing
- Re Broader Systemic Matters

Continuing Challenges and Issues

Not All FV Measurements Require Estimation

Other Accounting Estimates

Inherent in **Accrual** Accounting, e.g.,

- Impairments
- AROs
- Loan Loss Allowance
- Revenue Recognition
- Deferred Tax Asset Valuation Allowance
- Insurance Reserves and IBNR
- Pension and OPEB Liabilities
- Depreciable/Amortizable Lives and Salvage Values
- Allowance for Inventory Obsolescence
- Period End Estimates of Accrued Liabilities

Vary in Nature and Extent of Estimation

Audit Committee Perspective

Expectations of Company Management

Expectations of Independent Auditor

Tie in with Risk Management, Strategy, and
Operations

Is There a Need for a New PCAOB Standard ?

If Yes, What are Areas Where Updated, New, or More Consistent Guidance is Needed ? For Example,

- Update for Key FV Concepts
- Auditing Level 2 & 3 FVs
- Use of Pricing Services
- Use of Valuation Specialists
- Auditing Other Accounting Estimates - Which Ones/Type ?
- Auditing Disclosures
- Auditing Practicality Exceptions

Other Standard Setting Considerations

Accounting Estimates Vary in Nature and Extent of Estimation Required and Not All FVs Require Estimation. May Imply Need For :

- Clarity In Scope and Definitions
- Different Guidance for Different Types of Estimates

Consider Potential Behavioral Effects, Both Positive and Negative

Is ISA 540 a Good Starting Point ?

Are There Potential Systemic/Structural Solutions ?