November 1, 2019

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the Tennessee Department of Audit, Division of State Audit, we thank the Auditing Standards Board for the opportunity to comment on the Exposure Draft (ED), Auditing Accounting Estimates and Related Disclosures. We generally agree with the board’s proposals. In regard to the specific request for comments, our responses follow:

1. We agree with the board that the principles-based requirements and guidance within this proposed SAS are appropriately characterized, and that the terminology used in the standard is appropriate. We agree with using a framework-neutral approach and found no examples that violated this principle.

2. We agree that the proposed SAS is helpful in describing the key concepts of the proposed SAS and adequately explains the interplay between the proposed SAS and other AU-C sections. However, “point estimate” could be clarified in the definition of the auditor’s or management’s point estimate. How is this different than just an “estimate”? Why is the modifier needed?

3. We agree with the board’s proposal to remove paragraphs .06–.10 from AU-C section 501 because those paragraphs were mainly related to performing audit procedures and not related to evaluating audit evidence.

4. We agree with the proposed effective date and believe it provides adequate time to prepare for implementation.

In addition, we have the following suggestions for the ASB’s consideration:

1. In ¶12f and throughout the proposed SAS, the phrase “specialized skills or knowledge” is used. We suggest that using “specialized skills, knowledge, or experience” (SKE) might be a more comprehensive and consistent notion to use because it would be consistent with SKE utilized in relation to non-audit services with the Government Accountability Office’s Government Auditing Standards (i.e., Yellow Book) and the AICPA’s Code of Professional Conduct. We believe “skills and knowledge” alone is too limiting.
2. In ¶A29 (in particular, the heading), we believe additional guidance is needed about the intent of “expects to be included in the financial statements.” Our concern is whether the expectation goes beyond the minimum requirements of an applicable financial reporting framework or regulatory framework. In other words, on what is the expectation based? If the intent is that other disclosures beyond the minimum requirements of the applicable financial reporting framework might be needed to ensure a fair presentation, this should be added as an explanation. We want to ensure the practitioner explicitly understands what his/her responsibilities are in order to comply with the SAS. This clarification might be best in ¶12d or its introduction paragraph.

3. For ¶A41 (“potential judicial or regulatory actions”), we suggest clarifying that this example is for transactions and events that occurred during the financial reporting period, not future transactions or events.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz (615) 747-5262 (Gerry.Boaz@cot.tn.gov) or me at (615) 747-5251.

Sincerely,

Deborah V. Loveless, CPA  
Director, Division of State Audit