

FROM: Dr. Steven Glover (Professor at Brigham Young University)
Dr. Brant Christensen (Assistant Professor at University of Missouri)

TO: International Auditing and Assurance Standards Board

DATE: July 25, 2017

SUBJECT: Comments on ED-540, *Auditing Accounting Estimates and Related Disclosures*

We appreciate the opportunity to comment on the IAASB's Exposure Draft on Auditing Accounting Estimates and Related Disclosures. We support the Board's efforts to clarify expectations and auditing standards' requirements in this critical area.

Having performed recent academic research regarding fair value, estimates, and estimation uncertainty¹, we commend the Board for addressing estimation uncertainty in a very direct and substantial manner. Based on our review of ED-540 and the proposed fair value standards from other standard setting bodies, it is our opinion that ED-540 appropriately addresses several key topics:

- ED-540 provides guidance to auditors on how to reconcile estimation uncertainty with quantitative materiality (A2, A134, A142-A146).
- ED-540 gives auditors explicit steps to address and respond to estimation uncertainty (Paragraph 19 of the standard, as well as A113-A134).
- ED-540 helps auditors ensure that estimation uncertainty is adequately disclosed to users of the financial statements, both by management (A116-A125) and by auditors (A125).
- ED-540 repeatedly discusses the need for management to perform sensitivity analyses to understand the extent of estimation uncertainty, while also encouraging auditors to perform such analyses (13c, 19, A2, A46, A92, A109, A113-A115, A123, A126-127, A136).
- ED-540 discusses extreme estimation uncertainty and the potential that some estimates cannot be made in accordance with reporting frameworks (A90). On this point, we encourage the Board to further consider how multiple instances of large estimation uncertainty accumulate to summary measures such as earnings per share, and how this

¹ For additional information, see:

-Christensen, B. E., Glover, S. M., & Wood, D. A. (2012). Extreme estimation uncertainty in fair value estimates: Implications for audit assurance. *Auditing: A Journal of Practice & Theory*, 31(1), 127-146.

-Christensen, B. E., Glover, S. M., & Wolfe, C. J. (2014). Do critical audit matter paragraphs in the audit report change nonprofessional investors' decision to invest? *Auditing: A Journal of Practice and Theory*, 33(4), 71-93.

- Christensen, B. E., Glover, S. M., Omer, T. C., & Shelley, M. K. (2016). Understanding audit quality: Insights from audit professionals and investors. *Contemporary Accounting Research*, 33(4), 1648-1684.

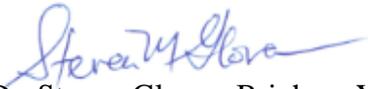
-Glover, S. M., Taylor, M., & Wu, Y. (2017a). Current practices and challenges in auditing fair value measurements and complex estimates: Implications for auditing standards and the academy. *Auditing: A Journal of Practice and Theory*, 36(1), 63-84.

-Glover, S. M., Taylor, M., & Wu, Y. (2017b). Mind the gap: Why do experts have differences of opinion regarding the sufficiency of audit evidence supporting complex fair value measurements? Working Paper, Brigham Young University and Case Western Reserve University.

accumulation of uncertainty would affect auditors' opinion on the financial statements taken as a whole.

We appreciate the opportunity to offer our comments.

Kind regards,

A handwritten signature in blue ink, appearing to read "Steven Glover".

Dr. Steven Glover, Brigham Young University

A handwritten signature in blue ink, appearing to read "Brant Christensen".

Dr. Brant Christensen, University of Missouri