

## Statement to Consider New Estimates Standard and Amendments Related to Using the Work of Specialists

**DATE:**

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**SPEAKER:**

J. Robert Brown, Jr, Board Member

**EVENT:**

PCAOB Open Board Meeting

**LOCATION:**

Washington

Thank you Mr. Chairman. I support today's vote on the adoption of requirements for *Auditing Accounting Estimates, Including Fair Value Measurements*, as well as amendments to its standards to strengthen requirements for an *Auditor's Use of the Work of Specialists*. These are important changes that reflect this board's efforts to promote improvements in audit quality.

It has been said that determining estimates is both an art and a science. <sup>[1]</sup> Over the past two to three decades, there has been a steep increase in the number of subjective accounting estimates that appear in a company's financial statements. <sup>[2]</sup> Estimates exist in many accounting standards such as fair value, impairment, inventory obsolescence, collectability, contingent liabilities, accrued expenses, and other accounting areas. In fact, some have described financial statements as "estimates upon estimates." <sup>[3]</sup>

Estimates often involve subjective assumptions and judgments and are areas that call for appropriate levels of professional skepticism. At the same time, like all of our standards, auditing estimates must take place in the context of a risk-based approach to the audit.

The new requirements take both of these into account. The standards for estimates and specialists will (1) establish a more uniform, risk-based approach including emphasizing the application of professional skepticism; and (2) strengthen the requirements for evaluating the work for a company's specialists, while also applying a risk-based supervisory approach to both auditor-employed and auditor-engaged specialists. The final requirements will clarify auditors' responsibilities and better integrate them more closely to the Board's foundational risk assessment standards.

In developing the standard for estimates, the staff, for the first time, considered behavioral economics in rulemaking, which "incorporates a more realistic analysis of how people think and behave when making economic decisions." [4] The staff has done an excellent job of studying and considering the potential for cognitive biases that could exist in the context of estimates and factored this into the recommendations we are considering today.

In closing, I would like to thank the staff in the various offices and divisions who worked so diligently over the years on these projects and who provided valuable contributions. These projects required tremendous collaboration, and I would like to commend them for that.

Specifically, I would like to thank the individuals in the Office of the Chief Auditor Barbara Vanich, Keith Wilson, Dominika Taraszkiewicz, Lisa Calandriello, Nike Adesoye, Mamed Salmanov, David Hardison, and Karen Wiedemann, from our Office of Economic and Risk Analysis, Andres Vinelli, Joon-Suk Lee, and Rahsan Inget, and in our Office of General Counsel, John Cook and Jennifer Williams.

I also would like to express my appreciation to the staff at the SEC for their significant contributions to these projects and my fellow Board members for their invaluable thoughts and insights on these standards.

Thank you Mr. Chairman.

[1] See Gartenstein, Devra. *How to Estimate for the Future in a Financial Statement*.

<https://smallbusiness.chron.com/estimate-future-financial-statement-41497.html>. Accessed December 2018.

[2] See Lev, Baruch, and Gu, Feng. *The End of Accounting and the Path Forward for Investors and Managers*. Wiley and Sons, Inc., 2016. Hoboken, NJ.

[3] *Id.*

[4] See <https://www.nobelprize.org/uploads/2018/06/popular-economicssciences2017.pdf> .