

Auditing Accounting Estimates and Fair Value Measurements

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Observations Related to Smaller Issuers/Auditors

- Accounting Estimates/Fair Value Measurements Common to Smaller Issuers
- Risk Assessment/Judgment
- Resource Challenges and Resultant:
 - Utilization of Specialists
 - Utilization of Third-Party Pricing Sources

Accounting Estimates/Fair Value Measurements Common to Smaller Issuers

- Fair value measurements
 - Assets/liabilities acquired in a business combination
 - Investment portfolios
 - Derivative instruments (interest rate contracts, mortgage banking)
 - Mortgage servicing rights/obligations
 - Equity instruments
- Other estimates
 - Asset impairment (allowances for doubtful accounts/loan losses, goodwill and other intangibles)
 - Pension and other post-employment obligations
 - Revenue contracts
 - Inventory obsolescence

Risk Assessment/Audit Response

- Risk assessment
 - Well founded?
 - Adequately documented?
- Challenges to an appropriate audit response:
 - Testing management's process
 - Developing an independent estimate
 - Reviewing subsequent events or transactions
- Regulatory influences

Resource Challenges

- Limited model design/assessment capabilities result in greater use of specialists and third-party pricing sources.
- Specialists are typically engaged by the issuer and assessed by the auditor. Knowledge of what constitutes reasonable assumptions, in order to appropriately challenge them, will require continued educational resources.
- Valuation/model complexities, and the application of complex GAAP, will continue to challenge smaller issuers, audit committees and auditors.