Panel 1   November 10, 2022

Impact of Macro-economic Developments on the Accounting Profession – Accounting Standards, Estimates, Auditing and the Profession in General

Tom Lanoue, Partner, Deloitte
Cameron McInnis, Chief Accountant, OSC
Brad Owen, Partner-in-Charge, Department of Professional Practice, KPMG
Dan Simunic, Professor Emeritus, University of British Columbia for the Q & A
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Overview

- Recent external events – war in Ukraine, natural disasters, COVID-19 fiscal and monetary policy and other geopolitical events (supply chain disruption) including inflation are creating global economic uncertainty
  - Impacting uncertainty and estimation risk particularly for fair value measurement and impairment testing and going concern assessments
  - Fraud risk may be increasing
  - Investors will have a hard time comparing/benchmarking estimates between companies and understanding the true sensitivity to changes in assumptions
  - Companies that previously considered peers may no longer be truly comparable
- Incorporating climate risks (physical, regulatory and transition) into strategy and estimation may be challenging to all and limit comparability
- Higher reliance on disclosures around assumption sensitivity and risks in financial statements and MD&A to understand any potential bias/noise in the estimate
- Auditors will be challenged to clearly demonstrate how they considered contradictory evidence and applied professional skepticism in light of uncertainty
Fair Value Measurements and Impairment Testing

- Likelihood of impairment indicators and triggering events increases significantly
- Driven by changes to commodity/labor prices, supply chain disruption and increase in discount rates
- Challenges in using discounted cashflow – may drive increased use of experts
- Increased auditor attention to consider contradictory evidence, understand consistency of assumptions applied and changes to strategic plans due to market uncertainty and evolving trends
- Some key considerations
  - Model selection
  - Projecting cash flows
  - Inflation
  - Estimating probabilities associated with different cash flow scenarios
  - Determining discount rate
  - Disclosure of estimation uncertainty – potential for increase in number of assumptions and sensitivities being disclosed
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