

Exhibit 1**Summary of Significant IAASB Decisions in Response to Comments on the ED**

STRUCTURE

- Combine the sections on risks of material misstatements and significant risks, to indicate more clearly that the responses to significant risks are an extension of the responses to risks of material misstatement.
- Expand the guidance in the proposed ISA to clearly demarcate the responsibilities of management and the auditor.
- Reposition as one of the option procedures in response to risks of material misstatements the requirements and related guidance dealing with the auditor's consideration of events up to the date of the auditor's report.

To further consider:

- Whether the guidance explaining the risk assessment procedure pertaining to the auditor's review of the outcome of prior period accounting estimates unduly emphasizes the notion that difference from the prior period may indicate a misstatement.
- Whether it is necessary to repeat the overarching bold type requirement in the introduction of the ISA in the section dealing with evaluating audit evidence and concluding on the reasonableness of the accounting estimates.
- Whether it is appropriate to limit the requirements dealing with: (i) the auditor's consideration of the sufficiency of audit evidence in relation to estimate recognition by management; and, (ii) the adequacy of disclosure of estimation uncertainty, to significant risks, or whether they should be made applicable to all estimates.

CONSIDERATION IN AUDITS OF SMALLER ENTITIES

- Retain the proposed requirements, as they appear to be appropriate for audits of entities of all sizes.
- Include additional guidance that further explain the application of the ISA to audits of smaller entities, in particular in relation to the following: (i) the nature of accounting estimates and the process followed by management in identifying and making accounting estimates, and how they may differ in a smaller entity than in a larger entity; (ii) management's consideration of alternative assumptions or outcome; and (iii) the applicability of each of the optional procedures in response to risks of material misstatements.

RANGES AND BIAS

- Retain the proposed further substantive procedures in the event that estimation uncertainty gives rise to a significant risk, even in the circumstances where the auditor has developed a point estimate independently.

- Simplify the proposed two-step determination of the range of reasonable outcomes.
- Explain the relationships that may exist between the range of reasonable outcomes and materiality or tolerable error, and the effect that the relationship may have on the auditor's considerations.
- Include additional guidance to demarcate the responsibilities of management and the auditor with respect to the development of ranges for purposes of evaluating the effects of estimation uncertainty for estimates that give rise to significant risks. However, retain the principles that there may be circumstances where the auditor may consider it necessary to develop a range for this purpose.
- Retain the auditor's responsibility to obtain sufficient appropriate audit evidence to conclude on the reasonableness of each accounting estimate, and not to extend to include the need for the auditor to conclude whether bias exists and if so, whether it is a misstatement (for which ISA XXX is to address).
- Include additional guidance that (i) emphasizes that the auditor should be alert to circumstances that may indicate a pattern when all estimates are considered in the aggregate; (ii) describes further the nature of management bias; and (iii) explains the auditor's consideration of indicators of bias throughout the ISA, at relevant points.
- To replace the examples of bias with examples of indicators of bias.
- To strengthen the wording of the responsibility of the auditor from remaining alert to or considering to determining the existence of indicators of bias.

To consider further:

- Use of the term "range of reasonable outcomes," and whether it conveys adequately the need for the auditor to be satisfied that both the range and the outcomes within the range are reasonable.
- Use of the term "as likely to occur as not," and whether this term and the related guidance are clear and accurate in describing the process of narrowing a range.
- The guidance pertaining to narrowing a range and the relationship between the range and tolerable error and materiality, including whether it is appropriate to circumscribe the range of reasonable outcomes as being equal to, or less than, tolerable error, recognizing that this may create an unrealistic expectation particularly in relation to certain industries.
- Additional guidance on the auditor's consideration of indicators of possible management bias in relation to the cumulative and iterative nature of the audit, and the effect that such indicators may have on the subsequent year audit.

MISSTATEMENTS

- Retain the principle that a difference between the auditor's point estimate or range and management's point estimate constitutes a misstatement. However, revise the related explanatory material to avoid: (i) implying that the determination or measurement of a misstatement depends on whether management applied a sensitive analysis; and (ii) placing too great an emphasis on specific characteristics of ranges.

- Retain the principle that an arbitrary change in an accounting estimate by management is a misstatement, irrespective of whether the estimate is within a range of reasonable outcomes or the financial reporting framework is silent on treatment. However, emphasize that arbitrary changes are likely to be uncommon and that the auditor has to exercise professional judgment in evaluating evidences supporting management's contention for a change in circumstances.
- A requirement to document, and to communicate, misstatements identified by the auditor is unnecessary, if such requirements are included in the proposed ISA dealing with materiality and the evaluation and aggregation of misstatements, or addressed in proposed revised ISA 260, respectively.

RELATIONSHIP OF ISA 540 AND ISA 545

- To identify a solution to address the overlap between the two ISAs.

Exhibit II**Comparison of Bold Type Paragraphs of Proposed Revised ISA 540 to the Exposure Draft (ED) of ISA 540 (Revised)**

Per ED	Per Agenda Item 3-A
The auditor should obtain sufficient appropriate audit evidence to evaluate the reasonableness of accounting estimates and related disclosures, in the context of the entity's applicable financial reporting framework.	The auditor should obtain sufficient appropriate audit evidence to evaluate the reasonableness of accounting estimates and related disclosures in the financial statements, in the context of the entity's applicable financial reporting framework.
<p>The auditor should perform risk assessment procedures to identify accounting estimates for which there is a risk of material misstatement, by:</p> <ul style="list-style-type: none"> (a) Obtaining an understanding of the requirements of the entity's applicable financial reporting framework relevant to the accounting estimates; (b) Obtaining an understanding of how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates in the financial statements; (c) Obtaining an understanding of the processes, including relevant internal controls, used to make accounting estimates, including the assumptions underlying them and whether, and if so how, management has assessed the effect of estimation uncertainty; and 	<p>In order to identify accounting estimates for which there is a risk of material misstatement, the auditor should:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of the requirements of the entity's applicable financial reporting framework relevant to accounting estimates; (b) Obtain an understanding of how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates in the financial statements; (c) Obtain an understanding of how management made the accounting estimates and the data on which they are based (i.e., management's process used to make accounting estimates), including: <ul style="list-style-type: none"> (i) Relevant internal controls; (ii) Whether management has used an expert, either from within or outside the entity; (iii) The assumptions underlying accounting estimates; (iv) Whether the methods for making the accounting estimates have been applied consistently, and the basis for changes, if

<p>(d) Reviewing the outcome, or re-estimation, of accounting estimates made in the prior period financial statements.</p>	<p>any, in accounting estimates from the prior period; and</p> <p>(v) Whether, and if so how, management has assessed the effect of estimation uncertainty.</p> <p>(d) Review the outcome, or re-estimation, of accounting estimates made in the prior period financial statements.</p>
<p>Using information gathered from the risk assessment procedures, the auditor should determine which accounting estimates have high estimation uncertainty and may, therefore, be significant risks that require special audit consideration.</p>	<p>Using information gathered from the risk assessment procedures, the auditor should determine which accounting estimates have high estimation uncertainty and may, therefore, give rise to significant risks.</p>
<p>For accounting estimates that the auditor has identified and assessed as having risks of material misstatement, the auditor should determine whether events occurring up to the date of the auditor's report confirm, or contradict, the accounting estimate.</p>	
<p>If confirming transactions or events are not expected to occur up to the date of the auditor's report, the auditor should perform one or more of the following procedures:</p> <p>(a) Test management's process used to make the accounting estimate.</p> <p>(b) Test the operating effectiveness of the controls over management's process for making the accounting estimate, together with appropriate substantive procedures.</p> <p>(c) Make, or use an expert to make, an independent estimate for comparison with management's accounting estimate.</p>	<p>In response to the assessed risks of material misstatement of an accounting estimate, the auditor should perform one or more of the following procedures:</p> <p>(a) Determine whether events occurring up to the date of the auditor's report confirm, or contradict, the accounting estimate.</p> <p>(b) Test how management made the accounting estimate and the data on which it is based.</p> <p>(c) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.</p> <p>(d) Develop, or use an expert to develop, a point estimate or a range to evaluate management's point estimate.</p>

<p>For accounting estimates that give rise to significant risks, in addition to any other substantive procedures performed to meet the requirements of ISA 330, the auditor should evaluate:</p> <ul style="list-style-type: none"> (a) Whether the significant assumptions made by management taken individually, and as a whole, provide a reasonable basis for the accounting estimate; and (b) Whether and how management has considered alternative assumptions or outcomes, and why they have rejected them. 	<p>For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of ISA 330, the auditor should evaluate:</p> <ul style="list-style-type: none"> (a) How management has considered alternative assumptions or outcomes, and why they have rejected them, or otherwise has addressed the effects of estimation uncertainty on the accounting estimates; and (b) To the extent not already done so by the auditor, whether the significant assumptions made by management provide a reasonable basis for the accounting estimate, including, where relevant, management's intent to carry out specific courses of action and its ability to do so.
<p>If management has not applied a sensitivity analysis or considered alternative outcomes, the auditor should consider whether it is practicable to develop a reasonable range of outcomes with which to evaluate the reasonableness of management's point estimate.</p>	<p>Where, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor should consider whether it is necessary to develop a range with which to evaluate the reasonableness of the accounting estimate, to the extent not already done so.</p>
<p>If management does not perform further work requested by the auditor, or if the auditor believes that management has failed to consider information that is reasonably available to it, the auditor should consider the implications for the auditor's report.</p>	
<p>For accounting estimates that give rise to significant risks, the auditor should evaluate whether the audit evidence obtained is sufficient and appropriate to support management's judgment as to whether or not to recognize the accounting estimate in the financial statements in accordance with the</p>	<p>For accounting estimates that give rise to significant risks, the auditor should evaluate whether the audit evidence obtained is sufficient and appropriate to support management's decision as to whether or not to recognize the accounting estimate in the financial statements in</p>

entity's applicable financial reporting framework.	accordance with the recognition criteria of the applicable financial reporting framework.
The auditor should determine whether accounting estimates and related disclosures are reasonable in the context of the entity's applicable financial reporting framework.	The auditor should evaluate, based on the audit evidence, whether the accounting estimates and related disclosures in the financial statements are either reasonable in the context of the entity's applicable financial reporting framework, or are misstated.
The auditor should consider whether there are indicators of possible management bias in the making of individual accounting estimates.	The auditor should determine whether there are indicators of possible management bias in the making of accounting estimates.
Where an accounting estimate falls within a reasonable range of outcomes that is greater than materiality, the auditor should determine whether the applicable financial reporting framework requires disclosure of the estimation uncertainty and, if so, evaluate the adequacy of such disclosure.	For accounting estimates that give rise to significant risks, the auditor should determine whether the applicable financial reporting framework requires disclosure of estimation uncertainty and, if so, evaluate the adequacy of such disclosure.
The auditor should obtain written representations from management regarding the reasonableness of significant assumptions used by them in making accounting estimates.	The auditor should obtain written representations from management regarding the reasonableness of significant assumptions used by them in making accounting estimates, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.
<p>The auditor should document:</p> <ul style="list-style-type: none"> (a) The results of the auditor's risk assessment procedures; (b) The assessed risks of material misstatement of accounting estimates at the assertion level, and the nature, timing and extent of further audit procedures responsive to the risks; (c) The results of tests of controls and substantive procedures that respond to significant risks; 	<p>The auditor should document:</p> <ul style="list-style-type: none"> (a) The basis for the auditor's conclusions about the reasonableness of accounting estimates that give rise to significant risks; and (b) Indicators of possible management bias.

<p>(d) Misstatements identified by the auditors; and</p> <p>(e) Indicators of possible management bias.</p>	
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