

## Supplement B To Agenda Item 2

### Analysis of Responses to the Application Material

1. The tables below have been developed from a review of the responses to ED-540 with the objective to identify comments that related to the application material and appendices.
2. They cover the responses to each of questions 1 to 8 asked in the Explanatory Memorandum, with the exception of question 7 on the conforming amendments. The conforming amendments are being considered as a separate exercise. The tables also cover the general comments included in the responses, which includes matters that were not the subject of specific questions in ED-540. The tables include the references made in these parts of the responses that mention guidance or that address the application material or appendices.
3. Each comment has been reviewed and its nature summarised and categorised (category letters in each table are different) according to themes identified. The categories are identified by the green number/letter coding (at the start of each summary of the comment in the third or fourth column of the table).
4. Within the tables, the first column contains an identifier of the comment and respondent, the second column a brief description of the theme identified. The third column includes comments that either supported guidance or called for more. The fourth column includes comments that did not support particular guidance or that suggested deletions.
5. **Agenda Item E.1** includes a summary of the general themes identified in each table, showing the category codes and descriptions used for each of the themes in that table, cross references from each category to the related comments in that table, the respondents who made them and the broad strategy being followed by the TF in developing responses to them.

**ED 540 – Responses referring to application material/guidance – Q1 – Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?**

Q1	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
ESMA	ESMA acknowledges that use of forward-looking information will become more complex under the new accounting standards, notably for the financial sector. In this context, we would like to express our serious concerns on whether the proposed requirements are sufficiently specific to ensure effective audit of complex models led by the introduction of expected credit loss (ECL) models for impairment of financial assets in IFRS 9 or valuation of insurance liabilities at their fulfilment value in IFRS 17. Accordingly, in our view, the audit of the application of the ECL model might require specific guidance, notably with respect to the testing of effectiveness of controls and to the governance over the modelling and validation processes.	<b>1D.</b> More guidance on application of ECL model, especially effectiveness of controls and governance over models and validation processes	
Q1.1. ESMA	ESMA notes that the IAASB previously considered addressing some specific issues related to the audit of financial institutions in a separate International Auditing Practice Note (IAPN #1). ESMA prefers that all requirements and application guidance specifically targeted to audit of accounting estimates stemming from ECL models for all entities are provided in ISA 540 (Revised). This reasoning applies equally to the audit of fair value measurement that rely on third-party pricing services.	<b>1D.</b> All guidance on ECL and fair value measures that rely on third party pricing services, should be included in the ISA, not in an IAPN	
Q1.2. ESMA	ESMA accepts that the provisioning under the new ECL model and auditing of these estimates under ISA 540 (Revised) might raise a number of implementation issues and challenges. Therefore, ESMA calls on the IAASB to scrutinise carefully any issues arising from the audit of the new ECL model; this is especially relevant in cases of complex ECL models' audits, such as in the financial sector. ESMA strongly believes that as part of its implementation monitoring, the IAASB should be prepared to provide, if necessary, additional guidance on a timely basis and as a matter of priority. Such guidance might be in form of amendments to ISA 540	<b>1F.</b> IASB should monitor implementation of ISA 540 with respect to ECL and be prepared to issue changes to ISA 540 or other guidance to address issues	

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	(Revised) or other additional guidance depending on the questions that might arise after the implementation of the new standard.		
Q1.3. ESMA	.... Furthermore, the audit procedures identified by the ED should cross-refer to the appropriate audit procedure requirements in other ISAs and be accompanied by specific guidance for audit of accounting estimates where appropriate.		<b>1A.</b> Cross reference procedures required by ISA 540 to other ISAs and provide additional guidance specific to AEs
Q1.4. ESMA	<p>... ESMA is of the view that the ED does not strike the right balance between the requirements of the standard and its application guidance, which do not have the same authoritative status. Notably ESMA believes that part of the application guidance should be transformed into binding requirements in order to ensure that the provisions are applied consistently.</p> <p>This is for example the case with regards to the application guidance related to the need to consider whether the auditor has obtained sufficient understanding of the entity and its environment in order to identify and assess the risks of material misstatement and to plan further audit procedures (paragraph A9 of the ED) and the enumeration of the cases when auditors may not rely on substantive testing alone (paragraph A98 of the ED). Further examples are included in a specific section of this letter.</p>	<b>1G.</b> Elevate some AM to requirements, e.g., paragraphs <b>A9 and A98</b>	
Q1.5. ESMA	On the other hand, the application guidance should be clear and avoid repetition to the extent possible. In this context, ESMA encourages the IAASB to review further the drafting of the application guidance in order to ensure clarity and readability of the text and where possible avoid unnecessary repetition.		<b>1A.</b> Make AM clear and avoid repetition to extent possible, for example a cross reference to other ISA would suffice if no guidance specific to AEs is being added – eg <b>A10-A11 re ISAs 260/315, A76 re ISA 315, and A67, A70 and A94-A96</b>

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	For example, the IAASB could consider whether, when referring to other ISAs a cross-reference is sufficient when no new guidance specific to audit of accounting estimates is provided in ISA 540 (Revised). This might be the case e.g. in paragraphs A10- A11 of the ED in relation to ISA 260 - Communication with Those Charged with Governance and ISA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, paragraph A76 in relation to ISA 315 and paragraphs A67, A70 and A94-A96 of the ED in relation to a number of ISAs.		
Q1.6. ESMA	Furthermore, in some cases the application guidance refers only to basic procedures without sufficient level of specification. In these cases, it could be considered either to simplify the guidance or provide guidance more adapted to the level of complexity of the audit of accounting estimates. This might be the case e.g. when referring to basic accounting or auditing procedures in paragraphs A26-A29, A32 and A117-122 of the ED.	1H. Improve AM includes only basic procedures, by simplifying or making more specific to AEs, e.g. A26-A29, A32 and A117-A122	
Q1.7. ESMA	Finally, while we welcome that the IAASB decided to provide some specific examples on audit of ECL in the application guidance, we would prefer that the standard includes more specific considerations for auditing of estimates related to ECL.	1D. Include more about specific considerations in guidance relating to auditing ECL estimates	
Q1.8. ESMA	Furthermore, ESMA is of the view that the examples provided in the application guidance should not lead to an overly narrow interpretation of the requirements. Consequently, while ESMA appreciates the example in paragraph A73 of the ED that considers accounting estimate of an ECL model in a financial institution as an example of an estimate where the inherent risk is not low, ESMA doubts that this example should be limited only to ECL models of financial institutions	1H. Examples should not narrow interpretation of requirement, eg A73	

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	that are active in different markets. Indeed, ESMA is of the view that the example applies to all financial institutions.		
Q1.9. IAIS	On a general basis, the ED-540 looks to cover key matters in the development of accounting estimates, including new requirements for further audit procedures that respond to the reasons for a specific assessment of material misstatement, and relevant application material on topics such as complex modelling, model adjustments, use of point estimates, significant data and assumptions, inactive and illiquid markets, and internal controls.	1I. Supportive of coverage of complex modelling, model adjustments, use of point estimates, significant data and assumptions, inactive and illiquid markets and internal controls	
Q1.10. IAIS	However, the generic nature of the ISA requirements do not allow for a more detailed consideration of important aspects of significant accounting estimates made within particular industries, such as insurance industry. Many jurisdictions have (or have had) specific guidance around auditing insurance contract liabilities, and such guidance allows for the development of specific considerations to address the particular features of these typically significant and complex accounting estimates being made by insurance entities. With respect to ISA 540, given its development as a principles-based standard, more detailed guidance on particular insurance audit specificities would provide auditors with more clarity on ISA 540 application, as well as a stronger foundation for assessing auditors' compliance with its principles-based requirements.	1D. Provide more detailed guidance on auditing insurance liabilities	
Q1.11. IAIS	Lastly, it is unfortunate that topical dialogue and experience on particular audit considerations around IFRS 17 (Insurance Contracts) could not have been more prominent during development of the revised ISA 540 given the late timing of the release of IFRS 17. The revised ISA 540 was developed without the benefit of IFRS 17 application experience and hindsight, which will come with time, and so there may be a	1F. Encourages further development on a priority basis of AM or guidance (e.g. IAPN) on auditing insurance liabilities	

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	need for some further considerations. Consequently, the IAIS strongly encourages the IAASB to consider on a priority basis the further development of audit application or guidance material, such as an <i>International Auditing Practice Note</i> (IAPN), to better address the specific considerations around auditing insurance contract liabilities.		
Q1.12. UKFRC	<p>As a matter of practicality, the ISA needs to be generic and cannot, nor should it attempt to, address in detail all the various emerging accounting requirements.</p> <p>Nevertheless, we do believe there is a need for separate detailed guidance to help apply the standard to different types of more complex or judgmental estimate and the IAASB should set out how this will be addressed when it issues the final standard.</p> <p>The application material has been enhanced from extant 540 but, understandably given the wide range of types of accounting estimates that the standard will apply to, provides relatively little specific guidance to help design procedures to address particular circumstances. For example, although a number of references to ‘expected credit loss’ have been included in the application material, we note that they generally just provide examples of estimates that may have high complexity, judgment and uncertainty and where controls around models may be particularly relevant.</p>	<b>1D. / 1E.</b> Separate detailed guidance needed on more complex or judgmental estimates e.g. ECL	
Q1.13. AUASB	the AUASB considers that in its current form, the ED will not rectify the concerns raised by regulators. For example, this revision was originally intended to provide guidance on auditing financial instrument values and loan loss provisioning under the expected credit loss model. While there is some guidance in the proposed consequential amendments to ISA	<b>1D.</b> Inadequate guidance on auditing financial instrument fair values and ECL provisions	

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	500, the ED does not contain specific requirements or guidance in these areas.		
Q1.14. AUASB	We also encourage the distinction between application paragraphs versus illustrative guidance material. Where material is added to ISA 540 which may be considered bespoke to certain types of estimates or industries, such as financial services, these may be better placed outside of the standard in industry-specific illustrative guides.		<b>1B.</b> Distinguish between AM paragraphs and illustrative guidance – guidance illustrative of circumstances in particular industries may be better placed in industry guides
Q1.15. CNCC-CSOEC	<p>... we have the feeling that ED 540 is currently focused on financial institutions and should also include some insurance companies' considerations.</p> <p>We therefore suggest the following amendments to take into account the specificities introduced by the newly published IFRS 17 - Insurance contracts, while remaining framework neutral. These amendments are listed below:</p> <ul style="list-style-type: none"> <li>- Paragraph AS could mention the fulfilment cash flows of insurance contracts as an example of an accounting estimate as a whole;</li> <li>- Paragraph A73 could make a reference to insurance contracts liabilities as an example of <ul style="list-style-type: none"> <li>• Accounting estimates for which a complex model is used with entity's specific assumptions (third bullet point)</li> <li>• Accounting estimates that collate, weight and integrate assumptions and data from a wide range of sources (fourth bullet point);</li> </ul> </li> <li>- In paragraph A74, an example regarding insurance liabilities could be added to illustrate complex modelling under IFRS 17 (IFRS 17 basis for conclusion includes</li> </ul>	<b>1D.</b> More guidance needed on insurance considerations, e.g. in paragraphs A5, A73, A74, A84, App1 – para 18	

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	<p>wording illustrating the complexity of the accounting model that could be re-used};</p> <ul style="list-style-type: none"> <li>- Paragraph A84 could make a reference to contractual cash flows of a group of insurance contracts as an example of accounting estimates that are likely to be subject to a high degree of judgment in amount, timing and uncertainty (first bullet point);</li> <li>- Paragraph 18 of Appendix 1 could refer to Insurance contracts liabilities estimation as an Illustration of situations where expert or entity specific values are used rather than historical transactions;</li> </ul>		
Q1.16. MAASB	<p>Further, the AASB recommends for the application guidance in the proposed standard to be expanded to reflect contemporary requirements of International Financial Reporting Standards (IFRS) in particular those relating to management's intention, for example:</p> <p>(a) Business model test in IFRS 9 to classify financial assets at amortised cost requires management's intention to hold such financial assets to collect contractual cash flows. What is considered sufficient, appropriate audit evidence to support management's intention in ED-540?</p> <p>(b) Assessment of lease period with embedded derivatives (e.g. renewal options and termination options) involves management's intention as well as assessment of environmental factors (e.g. economic conditions). Consequently, what is considered sufficient, appropriate audit evidence to support management's intention in ED-540?</p>	1J. More guidance on considerations relating to auditing of management's intention in AEs	
Q1.17. NBA	There is extensive attention to models in the ED and in our opinion part of the application material can be considered as educational material. ... We wonder whether the ISA's are		1C. AM that is educational should not be in the ISA, e.g. Part of AM on models is educational in



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	<p>the right place to educate the auditor. Although reporting frameworks are getting more complex, it would be helpful if the ISA's focused on auditing their requirements.</p> <p>We recommend shortening the educational material about models and/or removing them to an appendix. ... For example, the explanation of paragraph 10, which ranges from paragraph A9 up to A60 could (partly) be moved to an appendix.</p>		<p>style, not convinced should be in the ISA, shorten it (part of A9 to A60 on paragraph 10)</p>
Q1.18. NZAuASB	<p>The explanatory memorandum indicates that ISA 540 has been updated to focus on issues for audits of financial institutions arising from IFRS 9 which fundamentally change the way that banks and other entities account for their loan assets and other credit exposures. The NZAuASB acknowledges the inclusion of additional guidance relating to complex modelling, which we agree is needed.</p> <p>The NZAuASB, however, is concerned that the focus of ED-540 is heavily weighted towards complex accounting estimates found in the banking and insurance industries, and recommends that additional examples could be included in the guidance that reflect auditing issues relating to accounting estimates that are common in other sectors. Such an approach would provide a more balanced standard.</p> <p>As previously noted, a number of our constituents observed that ED-540 does not adequately address auditing issues relating to accounting estimates in the public sector.</p>	<p>1K. Imbalance towards complex estimates in banking and insurance – add more relating to AEs common in other sectors e.g. in public sector</p>	
Q1.19. EYG	<p>We also support the related application material in paragraphs A128-A134. Specifically, the guidance in A134 that acknowledges that auditor ranges may be multiples of materiality is helpful because this reflects what a realistic outcome may be when the auditor develops ranges for accounting estimates subject to high estimation uncertainty.</p>	<p>1H. / 1I. Support A128-A134 but further improvements to A134 in response to Q5</p>	

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	And, we agree with the emphasis on the auditor's evaluation of disclosures related to estimation uncertainty in these circumstances. However see our response to Q5 for further suggestions to improve this paragraph.		
Q1.20. EYG	The additional guidance proposed for ISA 500 related to the auditor determining the reliability of external information sources is useful, particularly in the context of evaluating the fair value of financial instruments, and as it relates to evaluating assumptions and data used in preparing estimates that management obtains from external sources (e.g., economic indicators). However, see response to Q7 where we express the view that this guidance would be better placed in the context of accounting estimates, and thus included in ISA 540.	1L. Move guidance on reliability of EIS from ISA 500 to ISA 540	
Q1.21. EYG	Due to the increasing complexity of financial reporting standards, we strongly agree that the auditor's required understanding of the applicable financial reporting framework under paragraph 10 (a) in ED-540 is important. However, we believe further guidance could be provided, starting from the auditor's risk assessment procedures, on the importance of the auditor giving explicit consideration to whether management's process to make the accounting estimate represents the appropriate application of the requirements of the applicable financial reporting framework.	1J. More guidance on whether management appropriately applies the requirements of the AFRF (AM to RA procedures and onwards)	
Q1.22. EYG	Paragraph 10 (e), which requires the auditor to understand how management makes accounting estimates as part of risk assessment procedures, or its related application material, should be enhanced to draw a more explicit linkage to paragraph 10 (a) regarding the auditor's understanding of the applicable financial reporting framework, and the related	1H. Enhance AM to 10(e) A11-13 re possible effects of understanding the AFRF on risk assessment	

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	possible effects on the auditor's risk assessment. Paragraphs A11-A13 to 10 (a) do not fully capture this relationship.		
Q1.23. EYG	Application material to paragraph 15 could be included to explain that the appropriateness of the auditor taking an approach to test how management has made the estimate is conditioned in part upon the results of the auditor's risk assessment procedures and whether the auditor believes that management's process achieves appropriate application of the requirements of the applicable financial reporting framework.	1H. AM to para 15 could be added to address how results of RA affect approach to test how management makes the AE	
Q1.24. EYG	For estimates for which the inherent risk is "not low", paragraph 19 requires the auditor to assess whether management has appropriately addressed estimation uncertainty, and if not, the auditor is required to develop a point estimate or range. We believe the application material to this requirement could be enhanced for the auditor to also take into account the results of the auditor's work (in accordance with paragraphs 17-18) to test how management has made the estimate in order for the auditor to consider whether development of a point estimate or range may be appropriate for reasons other than management's failure to appropriately address estimation uncertainty.	1H. AM to para 19 could be enhanced to explain how results of work under paras 17-18 could give rise to reasons other than management's failure to address EU for developing an auditor's point estimate or range	
Q1.25. GTI	The application material as currently drafted has a bias towards estimates related to financial instruments. We would recommend identification of areas where the application material could be updated to encompass all types of estimates.	1K. Imbalance in AM towards financial instruments – add areas where could broaden to address all types of AEs	
Q1.26. GTI	The guidance on use of an external expert is helpful as this is becoming more commonplace in audits.	1H. / 1I. Like guidance on use of an external expert – add guidance on validity of model,	

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	We would also recommend consideration of the importance of the integrity of the data and the value of data obtained from different sources as well as guidance on the validity of the model.	integrity of data, and value of data from different sources	
Q1.27. RSM	Our view is that the requirements and application paragraphs are generally clear and useful, although there is the danger that some auditors adopt a checklist approach to the guidance and try to address every paragraph. To mitigate this issue, but being mindful of the danger that some auditors may copy the ISA without regard to the particular circumstances of their client, some practical examples of risk assessment and response in different situations might be helpful.	1J. Add practical examples of RA and response in different situations	
Q1.28. AGA	We note that some financial reporting frameworks (for example public sector accounting standards) use the concept of “best estimate.” The concept of a “reasonable estimate” is used throughout the ED. Guidance should be added to clarify that the auditor may need to adapt the standard in circumstances where the applicable financial reporting framework uses a concept other than “reasonable estimate” such as “best estimate.” While many estimates may be reasonable, only one may be the best, and the auditor may need additional evidence that the estimate is the best.	1J. Add guidance on best estimates, not just reasonable estimates	
Q1.29. GAO	We also support the IAASB’s efforts to update the objective of auditing accounting estimates and related disclosures. In addition, we support the requirement in paragraph 21, but we encourage the IAASB to provide additional application guidance related to paragraph 21(a), such as examples of the circumstances in which management might provide disclosures beyond those specifically required by the	1J. Additional AM to para 21(a), such as examples of when additional disclosures may be needed for fair presentation	

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	framework that are necessary to achieve the fair presentation of the financial statements as a whole.		
Q1.30. INTOSAI	<p>We suggest adding the following to the application material:</p> <p>“Accounting for the following public sector activities may require significant estimation:</p> <ul style="list-style-type: none"> <li>• Social insurance programs;</li> <li>• Health care programs;</li> <li>• Veterans’ benefits programs;</li> <li>• Government guarantee programs;</li> <li>• Public debt</li> <li>• Environmental liabilities;</li> <li>• Tax revenue and receivables;</li> <li>• Infrastructure assets;</li> <li>• Specialized property and equipment such as military equipment and heritage assets;</li> </ul>	<b>1K.</b> More AM on specific AEs common in public sector	
Q1.31. AE	<p>Our members in the banking sector are also rightly concerned about a lack of relevant guidance on internal control within the proposals. This is part of a wider issue about the audit of highly complex estimates. The quality of internal controls, and the control environment in particular, is critical in the audit of such estimates. While sector specific guidance is not appropriate for a general- purpose ISA, and we are satisfied that most of the proposed material on internal control is in the application material, these concerns point strongly to the need for an IAPN, developed on a timely basis, for the financial sector.</p>	<b>1E.</b> Add sector specific guidance, on controls in the banking sector, in an IAPN	

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Q1.32. AE	Moreover, the references in paragraph A5 to the development of point estimates and ranges for components of estimates such as assumptions and data can be confusing for companies that operate in the banking sector. In effect, they amount to developing different assumptions and data against which to benchmark those used by management. What is critical is the impact of those on the actual ECL estimated by management.	1H. A5 contains confusing references to use of “point estimates and ranges” for assumptions and data	
Q1.33. AE	<p>We also list below other comments with particular relevance to the audit of ECL:</p> <ul style="list-style-type: none"> <li>The application material on management’s point estimate, 9(e), and on 17(a) and (b) on complexity, is limited. Ditto 17(e), 18(a) (iii), 18(c) (i) and (ii).</li> <li>The extent and depth of the required auditor understanding of applicable regulatory factors are not made clear in paragraph A15.</li> <li>There is a lack of application material addressing the audit of mid-sized entities. These are critical in the financial sector which has many, including smaller investment businesses and banks, which are nonetheless Public Interest Entities (PIEs).</li> <li>Paragraph A30 on auditing policy is light in relation to issues such as changes in credit risk, ditto paragraph A31 on model validation.</li> <li>Paragraph A73 is simplistic as a bank does not need to be active internally for ECL to be complex, subject to estimation uncertainty and involve judgement.</li> <li>Paragraphs A76 and A77 are insufficiently granular for the audit of ECL.</li> </ul>	1D. More, or amended guidance, is needed on ECL AEs including in: AM on 9(e), 17(a) and (b), 17(e), 18(a)(iii), 18(c)(i) and (iii), A15, A30, A31, A73, A76, A77, A86, A104 and generally in relation to mid-sized financial institutions	

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	<ul style="list-style-type: none"> <li>Paragraph A86 seems to imply that estimation and judgemental differences are not misstatements, only known and factual ones are. The sentence beginning ‘The variation in the measurement of an accounting estimate...’ should perhaps state  ‘The variation in the measurement of an accounting estimate that results from estimation uncertainty is not necessarily, in itself, a misstatement’.</li> <li>Paragraph A104 is light in terms of ensuring that appropriate data is used in a model and assessing the appropriateness of management assumptions.</li> </ul>		
Q1.34. AICPA	While we believe that the existing requirements in extant ISA 540 are sufficient for addressing the misstatement risk related to estimates for most audits, we do believe that certain additional application material could be provided in light of significant changes in the way entities operate, such as increasing the use of technology, volumes of data, and the increased use of forward-looking information being required by financial reporting frameworks.	<b>1J.</b> More guidance on developments in way companies use technology, volumes of data and increased use of forward looking information	
Q1.35. CAI	... the list of examples of estimates at paragraph A1 of ED 540 is quite similar to the current ISA 540 and might benefit from adding some of the newer areas of estimation required by the updated requirements of IFRS and other accounting frameworks.	<b>1H. A1 –</b> add newer examples of types of accounting estimates	
Q1.36. EFAA	We recognize that one of the main motivations for this project is the adoption of IFRS 9 Financial Instruments. EFAA research, The Trickle Down Effect - IFRS and accounting by SMEs, revealed the existence of a trickle-down effect whereby accounting practices of larger entities, including those in IFRS 9, cascade down to the accounting practices of SMEs that are not required to apply IFRS. This effect means	<b>1M.</b> More guidance on how the more complex and extensive requirements relate to SMEs (scalability)	

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	that auditing estimates will likely impact SMEs more than they might think. Indeed, our research revealed that there are many financial reporting frameworks, especially those based on or heavily influenced by IFRS, which require the use of fair values in SME financial statements. This reinforces the need for better quality guidance on how the extensive and complex requirements relating to non- low IR estimates apply to the audit of SMEs.		
Q1.37. IBRACON	we have concerns regarding key aspects of ED-540, such as the integration of proposed risk factors into the risk assessment framework and the design of the audit response outlined in questions 3 and 4, being overly complicated, lacking in clarity or difficult to operationalize. In this way, we believe further guidance could be provided in this ED, starting from the auditor's risk assessment procedures, on the importance of the auditor giving explicit consideration to whether management's process to make the accounting estimate represents the appropriate requirements of the applicable financial reporting framework.	1J. More guidance on whether management appropriately applies the requirements of the AFRF (AM to RA procedures and onwards)	
Q1.38. ICAEW	As they stand, the proposals are weighted towards accounting estimates that are not low IR, but are not the most complex of estimates found in the financial statements of banks, insurers and other financial institutions. There is much more material on not low IR estimates than low IR estimates. Good quality application material and detailed examples are needed to make the proposals workable for both for banks, insurers and other financial institutions, and for the vast majority of audits in which run of the mill estimates are generally assessed as low IR - but not always.	1M. More guidance on scalability both for financial institutions and for the vast majority of audits which address "run of the mill" estimates (scalability)	
Q1.39. ICAEW	For not low IR estimates, IAASB could make it clearer that no extensive changes to the extant approach to the response are	1H. Better quality and more detailed examples needed of low/not low IR AEs (A72, A73) and	



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	<p>intended and to highlight the enhancements in respect of the risk assessment.</p> <p>Better quality and more detailed examples are also needed. Currently, IAASB provides examples of estimates that ‘are’ low IR, rather than a nuanced discussion of different types of risk, the different circumstances in which they might be assessed as low IR or otherwise and, most importantly, how such risks might be dealt with in practice.</p>	how the related risks would be dealt with in practice (scalability)	
Q1.40. ICAEW	IAASB acknowledges that the quality of disclosures relating to estimates is critical and we agree with the upgrade and alignment of the audit objective for disclosures with the objective for estimates themselves. However, auditors will inevitably be unclear as to how the current requirements differ from the previous requirements. The application material has numerous, scattered references to disclosures and there are few cross-references. It would be helpful to consider how these could be drawn together.	<b>1L.</b> Draw together the scattered references to disclosures in AM	
Q1.41. ICAEW	... The example in A5 which refers to the auditors independently estimating ECL on a single loan is grossly over-simplified because it ignores the complexities involved in calculating ECL for an institution whose main business is lending.	<b>1H. A5</b> example of independent estimate of a single loan is grossly over-simplified	
Q1.42. ICAEW	References in A5 to the development of point estimates and ranges for components of estimates such as assumptions and data are confusing. In effect, they amount to developing different assumptions and data against which to benchmark those used by management. What is critical is the impact of those on the actual ECL estimated by management.	<b>1H. A5</b> contains confusing references to use of “point estimates and ranges” for assumptions and data	
Q1.43. ICAEW	Similarly, the difference between the 2nd and 4th bullets of A131 is unclear. The former uses management’s model and	<b>1H. A131</b> – difference between 2 <sup>nd</sup> and 4 <sup>th</sup> bullets unclear	

**ED 540 – Responses referring to application material/guidance – Q1 – Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?**

Q1	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	selects alternative assumptions or data sources to develop a point estimate or range, the latter uses alternative assumptions to those used by management. If the former involves independent inputs to management's model to assess the actual estimate, this can and should be clearer.		
Q1.44. ICAP	In view of the IAASB project, we feel that ED 540 is mainly focused on the auditing accounting estimates that would generally relate to the financial institutions. We understand that the forward looking information will be more complex to audit, and specific guidance may be included in the ED 540 in relation to the audit of Expected Credit Loss (ECL) model for impairment under International Financial Reporting Standard 9 'Financial Instruments'. In addition to this, we believe that further guidance is required within ED 540 to address the scalability of the requirements based on the particular type of the entity (for example, different in size, complexity, nature of operations etc.)	<b>1M.</b> Guidance on scalability of requirements by type of entity is required	
Q1.45. NASBA	We understand that one of the goals of the proposed standard is to enable the auditor to address audit risks arising from management's adoption of the evolving financial reporting framework, when applicable. To achieve this objective, we recommend including additional application guidance to assist auditors in addressing relevant risks and developing appropriate audit procedures (e.g. application guidance on the expected credit loss model).	<b>1D.</b> More guidance on evolving financial reporting requirements such as ECL	
Q1.46. SAICA	10(e)(v): How management identifies and addresses the risk of management bias, together with the application material in paragraph A45 provide much needed emphasis on this important element of accounting estimates.	<b>1I.</b> Support <b>A45</b> on management bias	

**ED 540 – Responses referring to application material/guidance – Q1 – Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?**

Q1	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q1.47. SAICA	We appreciate the fact that the International Standards on Auditing (ISAs) are written in the context of being framework neutral. The expansion of the application material throughout, in particular in relation to complexity, the use of judgement by management and estimation uncertainty enhances the standard's ability to remain principles based in dealing with evolving financial reporting frameworks. Appendix 1 and Appendix 2 provide helpful guidance in the context of relevant requirements of financial reporting frameworks, and the application material in paragraphs A135 to A138 focuses appropriately on disclosures in terms of the requirements of the applicable financial reporting framework.	1I. Support for expansion of AM in general, including Apps 1 and 2 and A135 to A138	
Q1.48. SAICA	The field testing respondents also agreed with these requirements but did indicate that the requirements may be too onerous for less complex accounting estimates. From a practical application point of view, guidance/ clarity is required on whether professional judgement can be applied in determining the extent of understanding required (e.g. are all of the elements identified in paragraph 10 always relevant; or are they all relevant in principle, but the depth of understanding may vary depending on the circumstances around the nature and extent of an entity's accounting estimates in the context of the understanding that the auditor is required to obtain in terms of ISA 315 (Revised)). Annexure 1 to this comment letter provides a summary of responses from field testing (refer to field testing question (d)).	1M. Guidance on application of professional judgment in determining extent of understanding of entity required (AM to para 10) (scalability)	
Q1.49. SMPC	One of the driving factors of the project to revise ISA 540 is the impending adoption of IFRS 9 , which has been considered in the proposals. However, it is less clear about other new international reporting standards, including leases (IFRS 16 ), revenue recognition (IFRS 15 ) and insurance contracts (IFRS 17 ) as so much of the guidance is for financial	1K. Imbalance in focus on ECL and other financial instruments – add more guidance on other evolving financial reporting requirements (IFRS 15, 16, 17)	

**ED 540 – Responses referring to application material/guidance – Q1 – Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?**

Q1	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	instruments, as well as being more relevant for high inherent risk accounting estimates.		
Q1.50. SMPC	Furthermore, there are many financial reporting frameworks, particularly those based on IFRS, which increasingly require the use of fair values in SME financial statements. This reinforces the need for better quality guidance on how the extensive and complex requirements relating to non-low inherent risk (IR) estimates apply to the audit of SMEs.	<b>1M.</b> Better quality guidance on how to apply to complex and extensive requirements to the audit of SMEs (scalability)	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q2.1. CFA	We agree with the approach taken in the proposal to begin by emphasizing the importance of professional skepticism followed by requirements and application material that drive professionally skeptical behavior.	2A. Supports ED 540 approach to PS	
Q2.2. BCBS	The Committee supports these provisions, and recommends that additional language be included in the final standard to further emphasise the importance of auditors exercising professional skepticism throughout the entire audit process. For example, the final standard should state that, in responding to the assessed risks of material misstatement for accounting estimates that involve complexity, management judgment or estimation uncertainty, such as ECL, auditors should challenge management's assumptions and question management's evidence on an ongoing basis during the normal course of the audit and appropriately document this process in the auditor's work papers	2A. / 2C. Supports ED 540 approach to PS and looks for additional language (challenge/question) to emphasise need to exercise of PS.	
Q2.3. BCBS	... we support the references to unintentional or intentional bias in paragraphs 18(a)(i)b) and A7, ...	2A. Supports ED 540 approach to PS in A7 – references to management bias	
Q2.4. BCBS	The ED addresses professional skepticism as a key concept in paragraph 5. This paragraph emphasises the importance of the application of professional skepticism, particularly in relation to the risk of management bias affecting the outcome of estimates that are subjective, complex and uncertain. We agree that the application of professional skepticism plays a central role in the audit of estimates and thus, that this concept is appropriately located at the start of the standard. Paragraph 5 should be reinforced by adding a statement in the final standard that the auditor shall exercise professional skepticism throughout all stages of the audit and prepare appropriate	2A. / 2D. Supports ED 540 approach to PS and wants an additional statement to emphasise that auditor shall exercise PS throughout all stages of audit and prepare appropriate documentation to demonstrate it	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	audit documentation to demonstrate the application of professional skepticism.		
Q2.5. <b>BCBS</b>	The ED recognises the importance of professional skepticism, pointing in particular to the link to “estimation uncertainty” in the Application Material in paragraph A93. The final standard should strengthen the link between the existence of significant management judgments and the importance of auditors demonstrating professional skepticism. Paragraph A85 states: “[w]hen accounting estimates are subject to a high degree of judgment, the accounting estimate may be more susceptible to the potential for management bias, particularly when this judgment involves greater subjectivity...”. We agree with this statement and believe that paragraphs 18 and A85 should be expanded to incorporate the need for the auditor to demonstrate the application of professional skepticism in these cases. This could be achieved by adding the following underlined language to paragraph A93: when the reasons for the assessment given to the risks of material misstatement include estimation uncertainty and management judgment, the auditor’s application of professional skepticism is particularly important. We further recommend incorporating paragraph A93 into the standard’s Requirements in paragraph 18.	<b>2G. A93</b> - Strengthen link between need for management judgment and PS and elevate this AM paragraph to include in paragraph 18	
Q2.6. <b>BCBS</b>	In addition, paragraph A85 speaks to the potential for management bias when new estimates make it necessary to revise judgments previously made by management for other estimates. We suggest that the latter be emphasised because there is a high risk of management bias when a new estimate indicates that a previous management judgment needs revision.	<b>2D. A85</b> – emphasise potential for management bias when new estimates make it necessary to revise previous management judgments for other estimates	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q2.7. BCBS	Lastly, an increased focus on skepticism could be achieved by adding the following to the end of paragraph A69: “applying specialized skills or knowledge as well as demonstrating a questioning mind-set and sound professional judgment”.	2C. A69 – additional language (questioning/sound judgment) to emphasise need to exercise PS	
Q2.8. BCBS	Where the risks of material misstatement are high and require more persuasive audit evidence (paragraph 15b), the final standard should explicitly require auditors to use professional skepticism by “challenging” management’s assumptions, where appropriate. This could be reinforced by including examples in the corresponding Application Material (paragraph A97) on how auditors could form their own independent views on certain data or management assumptions and on how auditors could challenge management’s assumptions. As an example, auditors could do so by looking at sources of data other than those chosen by management, such as macroeconomic data relevant for forward-looking information, as a way of demonstrating a questioning mind-set and gathering more persuasive audit evidence. Auditors should also seek to obtain and consider any contradictory audit evidence during the course of the audit as part of the overall “stand-back” test included in the ED in paragraphs 22–23.	2C. AM to para 15(b) e.g. A97 and AM to paras 22-23 – Add additional language (questioning / independent views / seek to obtain and consider any contradictory evidence during the stand back) to emphasise need to exercise PS	
Q2.9. CEAOB	We believe the consideration of whether there are other available valuation techniques, assumptions or data that could have been more appropriate is a way to exercise the auditors’ professional scepticism. Thus, we believe the content of application material A101 should be applicable for all kind of factors addressed in par.17 to 20, since it is a way to reduce auditor’s bias when assessing the risk of material misstatements in the accounting estimates	2C. A101 – extend language (‘consider whether other approaches that could have been more appropriate’) more generally to emphasise the need to exercise PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q2.10. EBA	... we welcome the explicit reference in the ED to the importance of professional scepticism in paragraph 5, being a key concept of the standard and linked to management bias. Indeed, the consideration of management bias throughout the audit of accounting estimates is of outstanding importance for us. ...	2A. Supports ED 540 approach to PS	
Q2.11. EBA	In addition, we support the development of the concept of professional scepticism in the context of estimation uncertainty in paragraph A93 of the application guidance. However we think the connection between estimation uncertainty and professional scepticism could be included in the standard itself (e.g. in paragraph 5 where professional scepticism is mentioned under the 'Key Concepts of this ISA').	2G. A93 – elevate link between PS and EU in this AM paragraph to paragraph 5 (Key Concepts)	
Q2.12. EBA	We believe that the development of the concept of professional scepticism at the beginning of the application guidance is missing, as paragraphs A2-A3 ('Key Concepts') address only the key concept of paragraph 6 related to the need for an overall evaluation based on the audit procedures performed ('stand-back' provision). ...	2E. AM to paragraph 5 – Add application material relating to PS, to better develop the concept of PS in context of ISA 540	
Q2.13. EBA	We recommend that stronger wording is used when it comes to 'challenging' management (e.g. paragraph A67, where specialised skills or knowledge are addressed, could also read that these need to be coupled with a questioning mindset and sound professional judgment by the auditors) and that special documentation in the context of 'challenging' management is required (e.g. paragraph 27 could include a requirement for auditors to document how, why and when they applied professional scepticism and if they have a sufficient level of seniority related to key	2C. Additional language (challenge / questioning mind / sound professional judgment) and additional guidance on documentation of challenge, to emphasise need to exercise of PS, eg paragraph A67	



**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	judgment areas in the audit of a particular industry such as banking or insurance).		
Q2.14. IAIS	<p>the importance of specialized skills or knowledge to properly assess some accounting estimates is relatively well covered in paragraphs A67-A70.</p> <p>However, we also note the ISA 540 material could include more emphasis around auditors ‘challenging’ the consistency of the management assumptions, as this is a concrete application of professional skepticism. While not precluding further emphasis in other areas - as auditors should demonstrate professional skepticism in all stages of the audit - we suggest that further emphasis on ‘challenging’ management assumptions should particularly be included within the guidance material relating to auditor responses when the risks of material misstatement are not low due to the extent of judgement applied, and when assessing management bias. In particular, we suggest strengthening the auditor’s role in assessing the consistency of management assumptions within an entity and in comparison to relevant objective information and market data.</p>	<b>2C.</b> Additional language (challenge management) to emphasise need to exercise of PS, particularly in relation to assumptions	
Q2.15. <b>IFIAR</b>	The guidance included in paragraph A101 around considering “whether there were alternative concepts, techniques or factors, types of assumptions or sources of data” that might have been appropriate should help drive a more sceptical auditor mind-set. However, it is not clear to us why this consideration applies only to the ‘complexity’ risk factor and why this questioning attitude should not be further required by the ED.	<b>2C. A101</b> – extend language (consider whether other approaches that could have been more appropriate) more generally to emphasise the need to exercise PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q2.16. IOSCO	As referred to in paragraph 5, the application of professional skepticism by the auditor is particularly important to the auditor's work relating to accounting estimates. While there are requirements in ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Statements on Auditing concerning professional skepticism, there is a lack of specific guidance on what constitutes 'professional skepticism', including its meaning and definition, as well as specific application procedures related to auditing of accounting estimates. We encourage the Board to provide greater guidance in these areas throughout ISA 540.	<b>2E.</b> Add more guidance on meaning and definition of PS and additional AM throughout ISA 540, to emphasise the need to exercise PS	
Q2.17. UKFRC	We agree with the approach being taken by the IAASB in ED 540 - to emphasise the importance of professional scepticism in the Introduction to standard, and then establish requirements and application material that are intended to drive sceptical behaviour, rather than to scatter the words "professional scepticism" more liberally throughout the standard.	<b>2A.</b> Supports ED 540 approach to PS	
Q2.18. UKFRC	We are concerned with the absence of clear requirements for the auditor to challenge management and believe there is room for use of the words "question" and "challenge" in the context of the requirements and application material that address how the auditor approaches its work.	<b>2C.</b> Additional language (challenge management / question) to emphasise need to exercise of PS, in AM and requirements	
Q2.19. AUASB	ED 540 needs clarification for circumstances where sufficient and appropriate audit evidence cannot be obtained from management, which may result in a modification to the opinion in the auditor's report based on a scope limitation. The AUASB would like to see clearer requirements or application guidance in the standard that the requirement to produce evidence supporting the	<b>2D.</b> Guidance to clarify circumstances where SAAE cannot be obtained from management and clearer requirements or AM that responsibility for evidence supporting the reasonableness of AEs lies with preparer not auditor	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	reasonableness of accounting estimates lies with the preparer and not the auditor.		
Q2.20. AUASB	The AUASB considers that the standard, in particular the application material, is too verbose (for example paragraphs 17 and 18), and is overly prescriptive and rules based. This may result in a checklist mentality being applied and a diminution of auditors' professional judgement and scepticism, leading to an unintended decline in audit quality.		<b>2B.</b> Standard and particularly AM (eg paragraphs 17 and 18) overly prescriptive and rules based and may undermine professional judgement and application of PS
Q2.21. AUASB	... the term 'reasonable' is used throughout the standard and the term is highly subjective and general. Such a large shift in concepts and terminology in one standard may cause unintended consequences in the application of these concepts.		<b>2B.</b> Use of term reasonable is highly subjective and may have unintended consequences
Q2.22. AUASB	In addition, the AUASB considers that the language in the standard could be strengthened to further promote the exercise of professional scepticism by being more focused on words that challenge and critically assess rather than corroborate. ...	<b>2C.</b> Additional language (challenge / critically assess rather than corroborate) to emphasise need to exercise PS	
Q2.23. AUASB	Finally, the AUASB considers that the wording of the standard is, in certain instances, taking the exercise of professional scepticism too far. For example, paragraph A101 indicates that the auditor should look to any other alternative.		<b>2B. A101</b> – goes too far in indicating auditor should look to any other alternative
Q2.24. CAASB	We support the inclusion of introductory paragraph 5 to emphasize, at the outset, the importance of the application of professional skepticism by the auditor.	<b>2A.</b> Supports ED 540 approach to PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q2.25. CNCC-CSOEC	We therefore consider that the requirements and application material of ED-540 appropriately and adequately reinforce the application of professional skepticism when auditing accounting estimate	2A. Supports ED 540 approach to PS	
Q2.26. HKICPA	We believe the requirements and application material would reinforce the application of professional skepticism, but we strongly recommend that the IAASB explicitly mentions and explains the 'stand back' concept in the body of requirements under ISA 540, not in the explanatory material.	2A. / 2G. Supports ED 540 approach to PS but stand back should be explained in body of the standard not in AM (AM on stand back?)	
Q2.27. NBA	Although attention is paid to professional skepticism, we feel that the standard could pro-vide more examples to demonstrate how professional skepticism can be applied. For in-stance we suggest to add more guidance on how to deal with contradictory audit evidence. More guidance could also be given as to whether, how and to what extent management's estimates should be challenged.	2D. Additional guidance on specific matters (more examples to demonstrate how PS is applied / how to deal with contradictory evidence / how management's estimates should be challenged), to emphasise need for exercise of PS	
Q2.28. NBA	At the same time the standard should be clear that the auditor cannot reduce inherent estimation uncertainty by performing more audit procedures and applying professional skepticism.	2D. Guidance to emphasise that (inherent) estimation uncertainty cannot be overcome by applying PS	
Q2.29. BDO	We support the increased emphasis on professional skepticism in ED-540. The placement of the requirement to apply professional skepticism in paragraph 5 sets the appropriate tone on its significance.	2A. Supports ED 540 approach to PS	
Q2.30. BDO	... we believe that additional application guidance is necessary to provide auditors with practices they may consider employing in performing the stand back review in order to best demonstrate professional skepticism. If there	2D. Additional guidance on specific matters (effective procedures to support PS in the stand back / documentation sufficient to show appropriate challenge of management	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>are best practices which were contemplated in the drafting of this provision, (i.e. involvement of others not previously associated with the work, a cooling off period before the review is undertaken, increased involvement of the engagement quality control reviewer, etc.), practitioners would benefit from having this guidance.</p> <p>To provide further clarity, we suggest adding guidance on the documentation that would be sufficient to show that the auditor appropriately challenged management assumptions and the extent to which alternatives were considered. In our response to the IAASB's Enhancing Audit Quality in the Public Interest consultation paper, we noted that: 'It is important that the IAASB does not focus only on drivers and impediments to professional skepticism, but also provides examples of how outcomes indicate professional skepticism has been appropriately exercised. One way of doing this could be through the provision of a professional judgment framework that could provide analyses of particular scenarios and demonstrate how a conclusion was reached in practice.'</p>	assumptions and consideration of alternatives), to emphasise the need to exercise PS	
Q2.31. DTT	DTTL concurs with the direction the IAASB has taken in strengthening the requirements and guidance surrounding the actions auditors are to take when incorporating the fundamental attitude of professional skepticism in the audit. DTTL agrees that it is not necessary to actually use the phrase "professional skepticism" throughout ED-540. ...	<b>2A.</b> Supports ED 540 approach to PS	
Q2.32. EYG	... we believe that more guidance could be provided earlier in ED-540 about how the auditor may deal with contradictory evidence when it is discovered in performing procedures, and prior to the stage of performing the overall evaluation of accounting estimates.	<b>2D.</b> Additional guidance on specific matters (dealing with contradictory evidence / evaluation of qualitative disclosures) to emphasise need to exercise PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	As expressed in our response to Q6, we believe more guidance is needed on the auditor's evaluation of qualitative disclosures. In our view, providing such guidance would contribute toward the goal of enhancing the appropriate application of professional skepticism when evaluating disclosures related to accounting estimates.		
Q2.33. AGA	We note that engagement quality control reviewer (EQCR) involvement may promote skepticism; consider adding specific guidance (or amending ISQC-1) that where the financial statements contain estimates it is (rebuttably) presumed that an EQCR will be assigned. Note that it should not be only "where the risk of material misstatement due to estimates is other than low" because, in the logic of the new 540, it is itself a significant and difficult judgment what is the risk associated with estimates.	<b>2D.</b> Suggests specific guidance (or amendment to ISQC1) for a rebuttable presumption that EQCR is required when financial statements include AEs, to emphasise need to exercise PS	
Q2.34. AGC	Yes, the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates.	<b>2A.</b> Supports ED 540 approach to PS	
Q2.35. <b>AGNZ</b>	There are some sections where the application of professional scepticism when auditing accounting estimates is reinforced. For example, paragraph A2 identifies some of the factors auditors should consider when assessing the reasonableness of accounting estimates. The section encourages auditors to consider the consistency of the data and assumptions applied by management in reaching its estimates. Although there is nothing in the extant ISA 540 that prevents auditors from considering this or other factors, the explicit inclusion of	<b>2A.</b> Supports ED 540 approach to PS, particularly the AM in <b>A2</b>	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	more factors can assist the auditor identifying areas where scepticism could be applied.		
Q2.36. CIPFA	CIPFA considers that the material in ED-540 appropriately reinforces the application of professional skepticism, mainly by promoting rigorous planning, testing and evaluation, while in some places simply highlighting the need to apply professional skepticism. Both approaches are necessary, given that professional skepticism is characterised both by a mindset which reflects an appropriate degree of challenge in the circumstances of the audit, and a technical understanding of the adequacy of audit evidence having particular regard to issues arising from information obtained from sources related to the audited entity, or other interested parties.	2A. Supports ED 540 approach to PS	
Q2.37. GAO	We agree that the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates.	2A. Supports ED 540 approach to PS	
Q2.38. INTOSAI	In general, we find that the requirements and application material appropriately reinforce the application of professional scepticism ...	2A. Supports ED 540 approach to PS	
Q2.39. PAS	Yes, the requirements and application material appropriately reinforce the application of professional skepticism when auditing accounting estimates.	2A. Supports ED 540 approach to PS	
Q2.40. ABA	Steps to Address Professional Skepticism Will be Ineffective .... There may be the notion that the auditor can detect bias that is considered unreasonable. However, due to the non-linear relationship of economic forecasts to credit losses (for example, there are often no credit losses on collateral-based loans until a specific loan-to-value ratio is		2B. Steps to address PS will be ineffective – there are no practical ways to reduce management bias and often unreasonable bias will be difficult to detect.

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>reached), small differences in forecasted macroeconomic factors can often have a large impact on the reported financial performance. Unreasonable bias will often be very difficult to detect. By the design of these accounting standards, there will be no practical way to reduce management bias in these estimates.</p>		
Q2.41. ACCA-CAANZ	<p>Our members found it useful to have additional focus on professional skepticism through the step back requirements and discussion of management bias. However, there was a view that the discussion of potential biases could be enhanced as this is a key issue in the exercise of professional skepticism. .... We believe that documentation of how the auditor has exercised professional skepticism throughout the audit process is key to addressing the perception that auditors are not sufficiently skeptical and also in assisting auditors to ensure that sufficient professional skepticism has been exercised. While there's an argument to be made that consideration of documentation of professional skepticism could be addressed by a separate workstream, the central nature of management judgement within ED-540 suggests that the IAASB should provide further explanation of its thinking now within ED-540 by providing additional application material on this issue.</p> <p>While ED-540 has partly addressed this area, it needs to go further in addressing documentation of professional skepticism and in providing guidance on management and auditor biases. CA ANZ's Practical ways to improve the exercise and documentation of Professional Scepticism in an ISA Audit addresses documentation of professional skepticism.</p> <p>We are pleased to see an acknowledgement in paragraph 10(c) of ED-540 of the danger of anchoring bias to auditor</p>	<p><b>2D.</b> Additional guidance is needed on specific matters (potential biases and on documentation of sufficient exercise of PS) – reference to CAANZ practical guide to improving exercise and documentation of PS</p>	



**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>decision-making. However, it is unclear to us that this section, and its supporting application material, is sufficient to fully mitigate the impact of the bias. For example, there is a fine balance between avoiding knowledge of the entity to mitigate anchoring bias and obtaining knowledge of the entity in order to make the auditor's assessment under paragraph 10(c) relevant. The application material does not help the auditor navigate these two positions.</p> <p>ED-540 should make a stronger connection between the use of judgement by management and the extent to which that judgement might be affected by cognitive biases. Auditing standards require the auditor to be alert to indicators of management bias and to take mitigating action where it is identified. Academic research indicates that cognitive biases are subconscious and will always be present. Therefore it is important when auditing estimates to seek and obtain evidence of the extent to which management's use of judgement is affected by bias and whether this means balances and disclosures are materially misstated. ACCA's publication <i>Banishing Bias</i> provides an analysis of the main cognitive biases and how they might impact on the audit process. CA ANZ's <i>The Art of Professional Scepticism</i> series also address biases.</p> <p>We therefore believe that further guidance would be useful, particularly in relation to management/auditor biases and documentation.</p>		
Q2.42. AICPA	We generally support the proposed amendments in ED 540 that reinforce professional skepticism when auditing accounting estimates.	2A. Supports ED 540 approach to PS	
Q2.43. ANAN	It is the considered opinion of the Association that application material ED appropriately reinforces the application of professional skepticism when dealing with	2A. Supports ED 540 approach to PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	auditing accounting estimates. The reinforcements are evidenced in the key provisions contained in the ED specially designed to enhance the auditor's application of professional skepticism. ...		
Q2.44. CAI	On balance, it is our view that ED 540 does appropriately reinforce the application of professional scepticism through requirements and guidance which, although not always explicitly referring to the concept of professional scepticism, require the appropriate mindset of the auditor. .... However, additional guidance could be included earlier [than para 23] in ED 540 referencing how the auditor may deal with contrary evidence when it is discovered in performing the procedures and prior to the overall evaluation stage.	<b>2A.</b> Supports ED 540 approach to PS but more guidance is needed on dealing with contrary evidence	
Q2.45. EFAA	The requirements and application material appropriately reinforce the application of professional skepticism when auditing accounting estimates. We are, however, concerned from a scalability point of view as to how much evidence and documentation of effective challenges of management and exercise of skepticism regulators will expect of SME audits.		<b>2B.</b> Supports the approach to PS but concern that level of evidence and documentation of effective challenge of management remains unclear
Q2.46. FACPCE	We consider that the requirements and application material of ED-540 include all the issues in which must be reinforce the application of professional skepticism when auditing accounting estimates.	<b>2A.</b> Supports ED 540 approach to PS	
Q2.47. IAAA	In our opinion, they adequately reinforce the application of professional skepticism when reviewing accounting estimates and other aspects of an audit of financial statements. We understand that the requirements included in the draft revision of ISA 540 as well as the accompanying application material will help, more than	<b>2A.</b> Supports ED 540 approach to PS	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	anything, to remind the auditor to keep his skepticism always up to date, although we understand that no normative material is necessary So that the accountant always maintains his professional skepticism but it is well known that professionals often "forget" this essential requirement in an audit practice of financial statements.		
Q2.48. IBRACON	We suggest adding further guidance on the documentation that would be sufficient to demonstrate the auditor's responsibilities in this area and that the auditor appropriately challenged management's assumptions and the extent to which alternatives were considered.	<b>2D.</b> More guidance on documentation that would be sufficient to demonstrate PS including appropriate auditor challenge of management	
Q2.49. IBRACON	Additionally, we suggest take into account the IAASB's Professional Skepticism Working Group point of view prior the issuance of the revised ISA 540, to ensure that appropriate terminology to address the auditor's work efforts related to professional skepticism is being used in ED-540.	<b>2F.</b> Need to take input from PS WG before finalising the standard	
Q2.50. IBR-IRE	... we do not believe professional skepticism is prominently addressed in ED 540. In our view the application of professional skepticism is not necessarily addressed within individual standards but should be part of a comprehensive approach combining standard-setting, education and potentially, the development of a professional skepticism framework. While D 540 is a step in the right direction, we encourage the IAASB to continue to investigate appropriate avenues to strengthen the application of professional skepticism by auditors.		<b>2B.</b> PS not prominently addressed but iSA 540 a good start
Q2.51. ICAEW	... the outstanding question for practitioners now, as before, is how much evidence will be considered 'enough' by regulators. How far do auditors need to go to show that they have challenged management assumptions		<b>2B. / 2D.</b> What remains unclear is how much evidence needed to show that auditor has effectively challenged management assumptions

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	effectively, and to what extent do management and auditors need to consider alternative assumptions. Some guidance regarding the nature and extent of the 'stand back', and/or examples thereof, is important, particularly in jurisdictions in which a compliance framework is mandated and in which the concept of a 'stand back' is not well-embedded.		– could provide more guidance to the stand back provision
Q2.52. ICAEW	Some query the proposed paragraphs 12 and 14 requirements to determine the need for the use of experts in all cases. The issue is less about the requirement, and more about the need to document a negative, i.e. to make a statement in the vast majority of cases in which an expert is not required. While the increase in the use of fair values in UK and international frameworks has led to increasing reliance on specialists by management and auditors alike, the use of specialists remains the exception rather than the rule. It might be better to deal with this issue in application material in the context of the team discussion, rather than having two separate requirements.		<b>2B.</b> Concern that two requirements on considering need for use of experts will create undue emphasis and need for documentation given that, despite financial reporting developments, the use of experts is still the exception.
Q2.53. ICAP	... we believe that the requirements to apply professional skepticism should be further emphasized and included in ED 540, along with guidance and explanatory material. This would assist in improving the understanding and practical application of the professional skepticism when auditing accounting estimates, consequently leading to enhanced audit quality and meeting the stakeholders' expectations.	<b>2D.</b> More guidance and explanatory material to emphasise PS in auditing AEs	
Q2.54. ICAS	One area where we believe further enhancement could be made is to include additional guidance in relation to how the auditor should evaluate qualitative disclosures to emphasise the need for the application of an appropriate level of professional scepticism. Such disclosures can be extremely important to allow the user to properly assess	<b>2D. / 2F.</b> Additional guidance on specific matters (qualitative disclosures) to enhance application of PS and PSWG should consider	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	the uncertainty surrounding the recognition and measurement of certain elements of the financial statements. We would suggest that the Professional Scepticism Working Group considers this issue as part of their project.		
Q2.55. ICAZ	... requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates.	2A. Supports ED 540 approach to PS	
Q2.56. ICPAK	The ED and accompanying material do reinforce the application of professional skepticism in the application of audit procedures to accounting estimates.	2A. Supports ED 540 approach to PS	
Q2.57. ISCA	While this fundamental principle is embedded within ED-540, its importance could be further emphasised with an additional focus at the start of the proposed standard. We recommend that the IAASB specifically highlight the importance of applying professional scepticism when auditing management's estimates. This includes maintaining an inquisitive and independent mindset to gather alternative audit evidence to corroborate with management's estimates.	2E. Enhance paragraph 5 or add AM to it, including the need to maintain an inquisitive and independent mindset to gather alternative evidence to evaluate corroboration thereof with management's AE	
Q2.58. ISCA	Whilst one of the objectives of ED-540 is to reinforce professional scepticism, of which several key provisions are designed to set the intended tone and audit approach, more clarity could be provided regarding the extent of audit documentation required to demonstrate the application of professional scepticism.	2D. Guidance on extent to which documentation required to demonstrate application of PS	
Q2.59. SAICA	The IAASB could consider linking the professional scepticism "catch all" in paragraph 5 to ISA 200, paragraph	2E. Link paragraph 5 to ISA 200.15 and its AM to clarify and support the concept in relation to auditing AEs	

**ED 540 – Responses referring to application material/guidance – Q2 – Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?**

Q2	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	15 (and its related application material) for additional clarity and support of the concept.		
Q2.60. SAICA	<p>The application of professional scepticism could be further enhanced if the following guidance is provided:</p> <ul style="list-style-type: none"> <li>How the auditor should deal with contradictory evidence as described in ED-ISA 540 (Revised).23.</li> <li>How the auditor should evaluate qualitative disclosures as mentioned in ED-ISA 540 (Revised).A57 and A137.</li> </ul>	<b>2D.</b> Additional guidance on specific matters (dealing with contradictory evidence / evaluating qualitative disclosures), to enhance the exercise of PS	
Q2.61. SMPC	In general, the requirements and application material appropriately reinforce the application of professional skepticism when auditing accounting estimates. A key factor will continue to be how much evidence and documentation is needed for auditors to support that they have challenged management effectively and the degree of skepticism that was exercised on the audit i.e. what will be considered ‘enough’ by regulators. There is a risk that an expectations gap would be increased with additional recognition of professional skepticism.		<b>2B.</b> Supports approach but increased emphasis on PS may increase regulator expectations of audit evidence and documentation and extent to which these are required remains unclear
Q2.62. CYGNUS ATRATUS	<p>In order to reinforce professional skepticism and risk assessment procedures in line with the required audit procedures we would suggest adding understanding of:</p> <ul style="list-style-type: none"> <li>Risks of manipulating data, assumptions used or calculations performed / models used.</li> <li>The (mathematical) complexity of calculations or modelling, and nature of IT systems involved.</li> </ul>	<b>2D.</b> Additional guidance in AM, about specific areas where an understanding is needed, to reinforce PS and underpin RA	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.1. UKFRC	... there is a concern amongst some stakeholders that under this proposed approach, some auditors may see a dividing line and assess estimates as having low inherent risk when in fact they do not. The examples in paragraphs A72 and A73 of where inherent risk may be low or not should help, but this is likely to be a matter that audit regulators will wish to monitor when the standard is implemented.	3A. Guidance in A72 and A73 helps distinguish between low and not-low inherent risk	
Q3.2. CAASB	Many of our stakeholders found the application material in the proposed standard complex, resulting in readability and navigation difficulty. We believe that if certain requirements could be written to provide more clarity as to what is expected of the auditor, it would alleviate the need for extensive application material in the standard. As an example, we note paragraph 10(f) includes fourteen paragraphs of application material.		3B. Application material complex resulting in readability and navigation difficulty. Could be reduced by rewriting certain requirements
Q3.3. CAASB	Paragraph 10(f) requires the auditor to understand “each of the components of internal controls as they relate to making accounting estimates”. Auditors of smaller entities may face a specific challenge with the interpretation of such wording because certain controls in these entities, such as the direct involvement of the owner-manager, may be relevant to many components. We suggest the IAASB clarify the requirement to make it more scalable to a particular circumstance. For example, using the wording in paragraph 8(c)(ii) of extant ISA 540, which refers to “relevant controls” rather than “each of the components of internal control” may be clearer. This may also allow the application material to be streamlined, thus, improving readability.		3B. Application material could be streamlined if the requirements were rewritten to be more scalable.

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.4. CAASB	Paragraph 11 requires the auditor to review the outcome of accounting estimates included in the previous period financial statements, or, where applicable, their subsequent re-estimation. We recognize that this wording comes from extant ISA 540, however, our stakeholders have indicated that there is varied interpretation in practice as to when this requirement applies. For example, some stakeholders have interpreted this requirement as not being applicable in circumstances when the accounting estimate does not have an outcome, such as in the case of stock-based compensation. We encourage the IAASB to revisit the wording of the requirement and the application material to ensure that it is clear that, while some accounting estimates may not have an outcome, a retrospective review of the results of the inputs used (such as, data and assumptions) in making the estimate, or management's estimation process applied in prior periods, may also inform the auditor's risk assessment and indicate possible management bias.	3C. Application material (and requirement) need to be clearer that, even if there is no outcome, retrospective review of inputs may inform risk assessment and indicate possible management bias.	
Q3.5. CAASB	Our stakeholders find the application material in ED-540 on considerations specific to smaller entities to be helpful in assisting the auditor in understanding and applying specific requirements, especially when it goes beyond issue identification by also discussing what the auditor may do differently. Accordingly, we encourage the IAASB to continue its focus on the applicability of ISA 540 to audits of entities of all sizes and to give careful and due consideration to matters specific to smaller entities.  We noted some application material in paragraphs A10 and A107 (last sentence) that refers to smaller entities, and therefore, we believe it should be identified with the title "Considerations Specific to Smaller Entities".	3D. Stakeholders find the application material on considerations specific to smaller entities to be helpful. IAASB should continue to give careful and due consideration to matters specific to smaller entities.  3D. Some general application material in A10 and A107 should be "Considerations Specific to Smaller Entities".	



**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.6. CNCC-CSOEC	<p>... we consider that the scalability that was desired has not actually been achieved at a satisfactory level for the following reasons:</p> <ul style="list-style-type: none"> <li>- The overall complexity and length of the standard;</li> <li>- The lack of application material for accounting estimates with low Inherent risk;</li> <li>- The lack of clarity on the extent of the required understanding of internal control for low risk estimates.</li> </ul>	<p>3A. More guidance needed for low inherent risk. <i>[But actually disagree with ED approach]</i></p>	<p>3B. Scalability not achieved – standard long and complex.</p> <p>3N. Lack of clarity on the extent of the required understanding of internal control for low risk estimates.</p>
Q3.7. CNCC-CSOEC	<p>Moreover, we note an important difference In weight in the application material between the sections dealing with low inherent risk and not low Inherent risk. There are limited examples provided in the application material in paragraph A72, where auditor's assessment of the risk of material misstatement may be based on low inherent risk. Even In those examples, we can see, depending on the facts and circumstances that an accounting estimate might result In being an inherent risk that Is not low. For instance, regarding "bonus accrual for management•, we would argue that there will be an Increase in management bias where the profitability of the entity may affect the accounting estimate (I.e. their bonus) which will lead to the conclusion that the inherent risk is not low. To avoid any possible misinterpretation of these examples, we suggest including a sentence in paragraph A71 to reflect how important It Is for the auditor to consider the specific facts and circumstances before concluding If an inherent risk Is low or not low</p>	<p>3A. Imbalance in sections dealing with low and not-low inherent risk. Limited examples in A72. Include a sentence in paragraph A71 to reflect how important It Is for the auditor to consider the specific facts and circumstances before concluding If an inherent risk Is low or not low</p>	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.8. HKICPA	The approach to scalability appears to be clear as set out in paragraph 15. However, there seems to be a lack of further guidance when the inherent risk is low. The requirements in 15(a) are elevated mostly from extant ISA 540. However, the relevant application material does not seem to have been elevated into ED ISA 540. Such guidance would still be helpful when there is low inherent risk, in particular when applying to SMEs.	3A and 3D. More guidance on low inherent risk, in particular when applying to SMEs. (Bring in from extant 540.)	
Q3.9. HKICPA	In addition, we would like to make some observations for IAASB's consideration in relation to situations under paragraph 15(a):  ....  <input type="checkbox"/> it would be useful to provide guidance for SMPs on how to develop a point estimate or range based on available audit evidence. The application material in A126-A134 for where the inherent risk is not low would also be relevant for paragraph 15(a)(iii);	3D. Provide guidance for SMPs on how to develop a point estimate or range based on available audit evidence.  3E. The application material in A126-A134 for where the inherent risk is not low would also be relevant for paragraph 15(a)(iii);	
Q3.10. NBA	... Sufficient appropriate evidence regarding (one of) the factors in case of high inherent risk might be more extensive than when inherent risk is moderate. The standard could demonstrate this in examples in the application material. In many cases SMEs could benefit from this.	3F. Could add examples to demonstrate that SAAE in case of high inherent risk might be more extensive than when inherent risk is moderate.	
Q3.11. NBA	Although a few paragraphs are dedicated to SME's, this could be more extensive. For example, in paragraph A23 it is not clear which information should be obtained from the owner-manager and how to determine whether this is sufficient.	3D. Guidance for SMEs could be more extensive, e.g. in A23.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.12. <a href="#">NZAuASB</a>	... The concepts of “low” and “not low” have not been clearly defined and there is a disconnect with the assessment of risk based on the extant standards. Based on the examples provided in paragraph A72 only the simplest of accounting estimates will be assessed with inherent risk of “low”. In such circumstances, ED-540 is specific as to the further audit procedures to be performed.		<a href="#">3A</a> . The concepts of “low” and “not low” have not been clearly defined .... Based on the examples provided in paragraph <a href="#">A72</a> only the simplest of accounting estimates will be assessed with inherent risk of “low”.
Q3.13. <a href="#">BDO</a>	We understand that ISA 315 (Revised) is currently being reviewed and revised and may clarify the meaning and use of the different risk levels – potentially through the concept of a ‘spectrum of risk’. Additional guidance regarding the requirements for auditing accounting estimates assessed to have SRMM would be particularly helpful. We also note that the requirements section of ED-540 focuses on the assessment of accounting estimates as having low inherent risk or not low inherent risk. However, the application and other explanatory material section, starting from paragraph A76 onwards, refers to SRMMs. We suggest that ED-540 be more consistent in the use of these terms and concepts.	<a href="#">3G</a> . Provide more guidance for estimates with SRMM.  Be more consistent in use of terms and concepts, e.g. in <a href="#">A76</a> onwards.	
Q3.14. <a href="#">BDO</a>	Further, the increased risk assessment procedures outlined in paragraphs 10(a) to 10(f), including the evaluation of internal controls related to accounting estimates, may lead to some confusion in the level of work effort required and may result in auditors performing too much work on non-complex, straight forward estimates. We believe that ED-540 will result in an overall increased work effort in comparison to the requirements in the extant ISA. Based on the examples included in the application paragraphs, it is not clear which types of estimates fall into the low inherent risk category. This lack of clarity has the potential to undermine the scalability of ED-540. Example	<a href="#">3A</a> . Not clear from guidance what types of estimates are low inherent risk. Example approaches for a simpler low-risk estimate compared to a more complex high risk estimate would be helpful in applying the requirements in paragraphs 10(a) to 10(f).	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	approaches for a simpler low-risk estimate compared to a more complex high risk estimate would be helpful in applying the requirements in paragraphs 10(a) to 10(f).		
Q3.15. DTT	DTTL also believes that providing examples of accounting estimates falling into specific inherent risk categories, such as those in paragraphs A72 (low inherent risk) and A73 (inherent risk that is not low) of ED-540, may negate the professional judgment to be applied by the auditor depending on the facts and circumstances of the engagement and different accounting estimates. These examples appear to create an expectation for the auditor to categorize and address the accounting estimates listed in these paragraphs in a prescribed manner. DTTL does not believe this is the underlying intent of the proposed standard, and would recommend striking paragraphs that suggest a prescribed response or an assumption that an accounting estimate is “simple.” In addition, these examples also create the impression that the assessment of inherent risk is at the level of the estimate as a whole and not at the risk of material misstatement level. In reality, the number and nature of individual risks of material misstatement will vary for different estimates. The requirements and related application guidance do not clearly address this point or deal with how the auditor would be expected to develop an overall strategy for auditing an estimate where the related risks of material misstatement include risks that are assessed as “low” and others that are assessed as “not low.”		<p>3H. Providing examples, e.g. in A72 and A73, may negate professional judgment.</p> <p>Delete paragraphs that suggest a prescribed response or an assumption that an accounting estimate is “simple.”</p> <p>The examples create the impression that the assessment of inherent risk is at the level of the estimate as a whole and not at the risk of material misstatement level.</p>
Q3.16. DTT	Further, when reading the application material DTTL is concerned with the added emphasis placed on “Considerations specific to smaller entities.” While DTTL understands and acknowledges the use of such paragraphs throughout the ISAs to draw the auditor’s attention to		<p>3I. Should not be “considerations specific to smaller entities” – small entities could have complex estimates</p>

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	specific matters that may be pertinent to certain smaller constituents, the special considerations applicable to auditing accounting estimates do not seem to lend themselves to being identified by the size of an entity. Rather, identifying and assessing risks of material misstatement is required irrespective of the size of an entity (and a very small entity could have difficult or complex accounting estimates with more complexity, involve more use of judgment by management, and have higher levels of estimation uncertainty).		
Q3.17. EYG	In regard to the risk assessment procedures, the guidance from ISA 315 (Revised) within paragraph A10 that summarizes considerations relevant to smaller entities when performing risk assessment is useful. However, for accounting estimates, we would suggest also putting such considerations in the context of the nature of the estimate. For estimates that are non-complex or have lower estimation uncertainty, whether in smaller entities or larger entities, entities are likely to have simpler business processes and, as a result, the effort to perform the risk assessment procedures also will be less for these estimates in comparison to estimates of greater complexity.	3D. Guidance in A10 is useful. But could be added to.	
Q3.18. EYG	We appreciate the flexibility provided in paragraph 15 (a) for the auditor to determine which testing approach is appropriate in the circumstances when inherent risk is “low” for the estimate. However, there is limited guidance in the standard on how the selected testing approach may relate to the prescribed work effort in paragraphs 17-20 for estimates with “not low” inherent risk. In order to achieve consistency in how auditors address “low” inherent risk estimates, we believe clarification is needed.	3J. Clarification/more guidance needed on how the selected testing approach may relate to the prescribed work effort in paragraphs 17-20.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.19. EYG	In our view, when the auditor determines to take the approach of developing an auditor's range for a "low" inherent risk estimate, the requirement in paragraph 20 that addresses the development of auditor ranges should apply. In addition, the application material that addresses the evaluation of management's point estimate when either an auditor's point estimate or range are used should apply. Similarly, when the auditor selects the approach of testing how management made the estimate, we believe the objectives in paragraphs 17-19 are relevant to the auditor's design of further audit procedures. We would expect, however, that the extent of effort and the persuasiveness of the evidence obtained from the further audit procedures is less for estimates with "low" inherent risk (see further comments regarding our views on paragraphs 17-19 in our response to Q4).	3J. Application material for paragraph 20 should apply also when following that approach for "low" inherent risk estimates.	
Q3.20. GTI	We acknowledge the IAASB's efforts with respect to scalability by requiring that estimates be categorized as "low inherent risk" and "not low inherent risk." However, ED 540 does not provide guidance on whether it is possible to have an estimate that is "material only" (i.e. an estimate above the determined materiality level for the audit that has little or no assessed risk) and if so how the auditor would differentiate between an estimate that is low risk and an estimate that is material only. For example, it is common for an entity to record property, plant and equipment in its balance sheet, on which a depreciation charge is required to be calculated as an estimate of the use of that asset. Depending on the relative size of the property, plant and equipment balance, the depreciation calculated may result in a charge in the financial statements that is above the determined materiality for the audit. However, based on the nature of that property, plant and equipment, the well-established parameters for	3K. Clarification/guidance needed for "material" estimates with little or no risk.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	determining the useful life of that category of asset and the lack of complexity to the calculation, it may be determined that little or no risk attaches to this estimate. As such, it is possible that the depreciation charge would be considered to be material only. We are therefore of the view that the IAASB should clarify the application of these requirements in order for auditors to appropriately and to consistently apply the revised standard.		
Q3.21. GTI	We would also recommend that further guidance is developed with respect to the application of paragraphs 17-19 of ED 540 in the context of the basic approaches. For example, it is not clear how these procedures would be applied in situations where the auditor is developing an independent estimate.	3J. Further guidance needed on applying 17-19 in context of basic approaches.	
Q3.22. GTI	In circumstances where sufficient appropriate audit evidence for the accounting estimate is obtained through the performance of subsequent events, or through the development of an auditor's point estimate, the requirements in paragraphs 17-19 may potentially be implicitly addressed. It is unclear whether paragraph 15(b) is addressing this situation by stating that "audit evidence about the matters in paragraphs 17-20 should be obtained when applicable." We would therefore recommend that this be clarified either in the requirement or with further application material.	3J. Clarify requirement or add further guidance about "audit evidence about the matters in paragraphs 17-20 should be obtained when applicable."	
Q3.23. KPMG	ED-540 could benefit from additional guidance on how to apply its requirements when auditing accounting estimates (either for the simple or more sophisticated estimates). We note that some of the useful practical guidance that exists in extant ISA 540 has not been retained;	3L. General call for more guidance. (Bring back some of the extant guidance?)	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.24. KPMG	<p>We believe that if the auditor’s assessment is that estimation uncertainty is expected to no longer represent a reasonably possible risk of material misstatement when the procedures are planned to be performed, then the auditor would not need to obtain a detailed understanding of how the accounting estimate had been made. Additional application guidance could clarify that:</p> <p>— The fact that the outcome of a management estimate is expected to be known when the audit procedures are planned to be performed does not necessarily mean that estimation uncertainty no longer represents a risk of material misstatement. For example, the disposal of a “hard to value” financial instrument measured at fair value several months after the reporting date may provide an indication of fair value at the reporting date, but the auditor would need to consider whether the financial instrument’s fair value could have been significantly impacted by changes in market conditions or other factors between the reporting date and the date of disposal. If this was a reasonable possibility, then estimation uncertainty may still represent a risk of material misstatement at the time that the auditor’s procedures are performed; and</p> <p>— When the auditor performs testing, the auditor would need to reassess whether the initial assessment that estimation uncertainty does not represent a reasonably possible risk of material misstatement is still appropriate. For example, if when the auditor starts to perform testing on purchase accruals, and the auditor determines that a significant number of supplier invoices are unexpectedly still outstanding and a number of management’s estimates for purchase accruals remain, then the auditor’s reassessment of the risk of material misstatement related to estimation uncertainty may lead the auditor to conclude</p>	<p><b>3M.</b> Additional guidance for when auditor assesses that estimation uncertainty is expected to no longer represent a reasonably possible risk of material misstatement when the procedures are planned to be performed,</p>	



**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	that more work needs to be performed to obtain a better understanding of the risks.		
Q3.25. KPMG	... We believe the application guidance related to 10(f) needs to make it clearer that the requirement to understand control activities is consistent with ISA 315.A100 and therefore that the footnote needs to refer to ISA 315.12-24.	3N. AM to para 10(f) needs link to ISA 315	
Q3.26. KPMG	<p>Consistent with extant ISA 540, ED-540.11 requires the auditor to review the “outcome” of accounting estimates included in the previous financial statements or their subsequent re-estimation.</p> <p>Although this requirement has not substantially changed from extant ISA 540, we do not believe there is consistent interpretation of the extent of procedures the auditor needs to obtain to perform to review the “outcome” of accounting estimates. In particular:</p> <ul style="list-style-type: none"> <li>— It is difficult to judge the extent of work necessary as it relates to long tail estimates as the outcome may not be known. The new application materials added has not provided sufficient guidance related to these matters. We believe it would be beneficial to provide further application guidance to clarify the work effort related to long tail estimates;</li> <li>— Paragraph ED-540.A63 states that a retrospective review of management judgments and assumptions related to “significant” accounting estimates (reflected in the prior year financial statements) is required by ISA 240 and that this review may be performed concurrently with the review of the prior period accounting estimates in ED-540.11. We believe it is necessary to provide further clarification application guidance in this area as to whether</li> </ul>	<p>3C. More AM to para 11 for long tail estimates and to clarify in A63 whether the retrospective review requirement is required for all estimates or all “significant” accounting estimates.</p> <p>Clarify the meaning of “significant” accounting estimates</p>	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	the retrospective review requirement in ED- 540.11 is required for all estimates or all “significant” accounting estimates. We believe it would also be useful to clarify the meaning of “significant” accounting estimates, which is not currently defined in ISA 315.		
Q3.27. KPMG	... a provision for impairment losses for loans at a large bank could be made up of individual estimates for each loan portfolio, with each of these estimates relying on multiple models to derive the estimate, and with each model likely having multiple judgments, assumptions and sources of data underlying them. It is unclear without further guidance how much work the auditor would need to undertake to satisfy the retrospective review requirement, particularly when the estimate is made at a point in time and is not affected by subsequent events.	3C. More guidance for how much work is needed to satisfy the retrospective review requirement for impairment losses for loans at a large bank.	
Q3.28. KPMG	We believe further consideration should be given to the scope of the retrospective review requirement and that further application guidance should be added to clarify the work effort for the more sophisticated estimates.	3C. More guidance to clarify retrospective review work effort for the more sophisticated estimates.	
Q3.29. KPMG	Rather than requiring the auditor to separately consider the three relatively broad risk factors above (complexity, judgment and estimation uncertainty), we recommend more granular risk factors are developed, perhaps derived from the objectives outlined in ED- 540.17-19, and included as example risk factors in the application guidance. Organising these more granular risk factors based on the different components of each estimate (data, assumptions and methods/models) would better align with how management actually makes the accounting estimate and the way audit evidence is available, making risk		3O. Develop more granular risk factors and cover in AM. <i>[This is in effect a negative comment on the ED approach.]</i>

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	identification and assessment more intuitive and streamlined.		
Q3.30. <b>KPMG</b>	<p>ED-540.A72 provides examples of accounting estimates that the auditor's assessment of the risks of material misstatement may be based on low inherent risk.</p> <p>We believe these examples should be reconsidered for the following reasons:</p> <ul style="list-style-type: none"> <li>— Depreciation calculations for an entity using a single depreciation method for property and equipment and a relatively low level of additions and disposals.</li> </ul> <p>We believe that estimation uncertainty for depreciation primarily arises from the selection of an appropriate method to allocate the depreciable amount on a systematic basis over its useful life, the estimate of the useful life and the estimated residual value at the end of the asset's useful life. The fact that an entity has a single depreciation method and a low level of additions and disposals during a period do not seem to be particularly relevant considerations when identifying and assessing the risk of material misstatement related to estimation uncertainty.</p> <ul style="list-style-type: none"> <li>— Accounting estimates that are based on data that is readily available - for example, translation of a cash balance that is held in a currency other than the reporting currency.</li> </ul> <p>We believe that the inherent lack of precision associated with the measurement of an account balance of this nature would normally be so low that it is highly unlikely that an auditor would identify a reasonably possible risk of material misstatement related to this estimation uncertainty. The</p>		3H. Reconsider the examples in <b>A72</b> .

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	suggestion that the estimation uncertainty of a foreign currency denominated cash balance could on its own represent a reasonably possible risk of material misstatement could lead the auditor to conclude that there are almost no accounting estimates for which estimation uncertainty does not represent a reasonably possible risk of material misstatement. It may also suggest that all estimates other than the most simple would have inherent risk that is not low.		
Q3.31. <b>KPMG</b>	ED-540.15 has different requirements for further audit procedures depending on whether inherent risk is low or not low. When inherent risk is low, the auditor shall determine whether one or more of three audit procedures would provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement (and perform further audit procedures if needed to obtain sufficient appropriate audit evidence). When inherent risk is not low, the auditor is required to perform further audit procedures to obtain audit evidence about the matters in ED-540.17-20. There are no requirements with respect to the procedures to be performed but ED-540.A97 suggests the three audit procedures in 15(a) may assist the auditor in obtaining audit evidence. There is limited guidance on how to perform these three audit procedures (some guidance in extant ISA 540 has been removed).	3J. More guidance to expand on <b>A97</b> and performing the procedures in 15(a).	
Q3.32. <b>KPMG</b>	... ED-540.A97 states that the audit procedures performed need to be designed to address the matters in ED- 540.17-19. However, it is difficult to understand how some of these matters could be addressed if the auditor is not testing how management made the estimate. It is not clear whether the intention is to encourage the auditor to test management's process whenever inherent risk is not low,		3J. <b>A97</b> not sufficiently clear for when the auditor is not testing how management made the estimate.

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	but it does appear that if an alternative audit procedure was performed, top up procedures would then be required to obtain sufficient appropriate audit evidence to meet certain objectives. If the intent is to encourage a preference for testing management's process, consideration should be given as to whether this is appropriate if alternative approaches may provide higher quality audit evidence (such as testing events after the reporting date).		
Q3.33. KPMG	Expand requirements and application guidance with respect to how the auditor perform the three audit procedures listed in ED-540.15(a) to obtain sufficient appropriate audit evidence.	3J. Expand AM to para 15(a) on the performing the procedures therein	
Q3.34. PKF	... The related application material provides considerations for small and medium entities, and provides further guidance which makes the requirements of par. 10 more scalable, but this is not immediately evident from the language used to state the requirements. ...	3D. AM to para 10 for smaller entities provides guidance to make para 10 more scalable, but not immediately evident from the requirements	
Q3.35. PKF	Further, the application guidance in par. A96 states that, if further audit procedures in paragraph 15(a) do not provide sufficient appropriate audit evidence, the auditor is required by ISA 330 to design and perform other procedures. We believe that the term "other" may not be consistent with other ISAs or be clear enough, and suggest replacing "other procedures" with "additional procedures responsive to the circumstances".	3P. Replace the term "other procedures" in A96 with "additional procedures responsive to the circumstances"	
Q3.36. PwC	Bring scalability to life through application material rather than the proposed low inherent risk threshold		3Q. Address scalability through AM [ <i>This is in effect a negative comment on the ED threshold approach.</i> ]

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.37. PwC	The best way to illustrate scalability in ISA 540 is through application material that can bring the scalability to life by demonstrating what might be an appropriate approach to a simple, non-complex estimate. For example, application material could be added to explain how events occurring up to the date of the auditor's report may provide robust evidence about the estimate, or how re-performing a simple straight forward calculation, such as depreciation, or using a simple, straightforward analytical procedure can provide reliable evidence for a less complex estimate, such as a basic bonus accrual.		3Q. Best way to illustrate scalability is through AM.
Q3.38. PwC	The results of our field testing indicated that auditors found paragraph 15(a) confusing because there was little guidance on how those approaches can be applied in a scalable manner. In their view, the approaches set out in paragraph 15(a) are applicable to the response to all estimates, not just those with low inherent risk, and they would ordinarily perform procedures to address some of the matters in paragraphs 17-19 even for those lower risk estimates. Overall, auditors were unclear on what is expected if selecting one or more of the approaches under this requirement.	3J. More AM to para 15(a) needed to clarify expectations	
Q3.39. PwC	We suggest that the application material could better illustrate scalability in responding to assessed risks through providing further explanation and examples about what may be involved in obtaining sufficient appropriate evidence for simpler accounting estimates. For example: <ul style="list-style-type: none"> <li>how events occurring up to the date of the auditor's report may provide robust evidence about the reasonableness of the estimate,</li> </ul>	3R. AM could better illustrate scalability in responding to assessed risks through providing further explanation and examples	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<ul style="list-style-type: none"> <li>re-performing a simple calculation, such as depreciation, or</li> <li>using a simple, straightforward analytical procedure to obtain evidence about a less complex estimate, such as a basic bonus accrual.</li> </ul>		
Q3.40. PwC	... Recognising that risks exist along a spectrum, we believe it is preferable to reinforce the principle, as set out in the second part of proposed paragraph 15, that the higher the assessed risk the more persuasive the audit evidence needs to be. As suggested above, this could be brought to life in examples within the application material.	3F. AM to para 15 could better illustrate that the higher the assessed risk the more persuasive the audit evidence needs to be	
Q3.41. ACAG	It would be useful to include in the standard further guidance on what factors, alone or in combination, may lead the auditor to judge the risk as significant.	3G. Include more guidance on factors leading to 'significant' risk	
Q3.42. INTOSAI	<p>The guidance provided in paragraph A10 for smaller entities may not always apply to smaller entities in the public sector.</p> <p>In the public sector, it is not uncommon for smaller entities to make significant accounting estimates. Smaller entities sometimes present a higher inherent risk of error due to lack of skills and competence, and the size of the entity is not necessarily a determining factor for assessing risk.</p>	3I. Be clearer A10 is not necessarily applicable to all smaller entities	
Q3.43. INTOSAI	Further, while specific requirements for audit procedures are suggested for low inherent risk areas, ISA 315 and ISA 330 emphasize audit procedures for areas with risk of material misstatement and not those with low risk. This inconsistency may impede the application of the proposed standard. We suggest further explanation and guidance on	3S. Provide further AM to address (perceived) inconsistencies with ISAs 315 and 330	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	this matter in the proposed standard and/or conforming amendments to other ISAs.		
Q3.44. ACCA-CAANZ	ED-540 seems to be focused on complex estimates of the kind dealt with in the financial services industry and lacks guidance for auditors dealing with less complex estimates in other industries.	3L. More AM for less complex estimates	
Q3.45. ACCA-CAANZ	... Appropriate guidance will be needed in the application material to help practitioners apply ED-540 consistently in respect of all sizes of entity.	3L. More guidance to cover all sizes of entity	
Q3.46. ACCA-CAANZ	In addition, the extensive related application material is largely applicable to larger audits and the only reference to the need for auditors to understand controls relevant to the audit (as required by ISA 315) is in paragraph A100 and even then, only in the context of 'very small entities'. The absence of reference to controls 'relevant to the audit' in paragraph 10 (f) has the effect of overstating the case. Paragraph A100 errs on the side of caution in this respect stating that controls may not be relevant to the audit in audits of all sizes.	3N. More balance in AM re controls relevant to the audit (e.g. A100) to cover all sizes of entity	
Q3.47. ACCA-CAANZ	There is also a difference in volume of material in the standard between the sections dealing with low inherent risk and not low inherent risk. We acknowledge the examples provided in the application material in paragraph A72, where the auditor's assessment of the risk of material misstatement may be based on low inherent risk but note that, even in these selected examples, depending on the facts and circumstances, an accounting estimate might result in being an inherent risk that is not low. For instance, regarding bonus accrual for management, we would argue that there is an increased risk of management bias where the profitability of the entity may affect the	3A. Better illustrate low and not low in A 71 and A72	



**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	accounting estimate (namely their bonus) which will lead to the conclusion that the inherent risk is not low. To avoid any possible misinterpretation of these examples, we suggest including a sentence in paragraph A71 to reflect how important it is for the auditor to consider the specific facts and circumstances before concluding if an inherent risk is low or not low. Also, the IAASB should include better quality examples or at least give a more nuanced description of the current examples.		
Q3.48. AE	In addition, the extensive related application material is largely applicable to larger audits and the only reference to the need for auditors to understand controls relevant to the audit (as required by ISA 315) is in paragraph A100 and even then, only in the context of 'very small entities'. The absence of reference to controls 'relevant to the audit' in paragraph 10 (f) has the effect of overstating the case. Paragraph A100 errs on the side of caution in this respect stating that controls may not be relevant to the audit in audits of all sizes.	3N. More balance in AM re controls relevant to the audit (e.g. A100) to cover all sizes of entity	
Q3.49. AE	There is also a difference in volume of material in the standard between the sections dealing with low inherent risk and not low inherent risk. We acknowledge the examples provided in the application material in paragraph A72, where the auditor's assessment of the risk of material misstatement may be based on low inherent risk but note that, even in these selected examples, depending on the facts and circumstances, an accounting estimate might result in being an inherent risk that is not low. For instance, regarding bonus accrual for management, we would argue that there is an increased risk of management bias where the profitability of the entity may affect the accounting estimate (namely their bonus) which will lead to the conclusion that the inherent risk is not low. To avoid	3A. Better illustrate low and not low in A 71 and A72	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	any possible misinterpretation of these examples, we suggest including a sentence in paragraph A71 to reflect how important it is for the auditor to consider the specific facts and circumstances before concluding if an inherent risk is low or not low. Also, the IAASB should include better quality examples or at least give a more nuanced description of the current examples.		
Q3.50. AE	... it is currently unclear how inherent risk, as a concept, ties in with the requirements in ISA 315. For instance, the concept of significant risk does not explicitly include a reference to inherent risk. There is scope for confusion in the application of the standard because inherent risk is not defined with reference to significant risk. We would therefore welcome guidance reconciling the two concepts.	3G. Add guidance to reconcile inherent risk with significant risk.	
Q3.51. AICPA	As drafted, we believe the assessment of inherent risk in paragraph 10 of ED 540 could be read as a separate risk assessment from what is required under ISA 315 (Revised) because, as proposed, it would seemingly require the auditor to separately understand management's estimates without a clear linkage in the requirements or application material to how the risk assessment in ED 540 is integral to the risk assessment for the financial statements taken as a whole. ...		3S. Not clear how AM (and requirements) for assessment of inherent risk tie in with ISA 315.
Q3.52. AICPA	ED 540 is not clear as to whether the assessment of inherent risk should be made at the relevant assertion level as required by ISA 315 (Revised) and does not provide guidance as to what the relevant assertion might be. Rather, it refers to accounting estimates as if they are separate from classes of transactions, account balances, and disclosures used in both ISA 315 (Revised) and ISA 330. Providing guidance on identifying the relevant assertions will likely improve audit quality when it is better expressed	3S. Provide guidance with respect to assessment of inherent risk on identifying assertions.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	in terms of the assertions to which the risks of material misstatement specifically relate (for example, valuation, completeness, or accuracy).		
Q3.53. AICPA	<p>With respect to the assessment of inherent risk as “low” or “not low,” we are not supportive of the proposed approach for the following reasons:</p> <p>a. We believe auditors will expend unnecessary effort determining what is meant by “low” inherent risk, and when considered with the related application material in paragraph A72 of ED 540, few accounting estimates may be assessed as “low” inherent risk. We think the construct of extant ISA 540 is already scalable based on risks of material misstatement. Further, we contend that guidance in extant ISAs already recognize that estimates are either higher or have greater inherent risk. For example, paragraph 27 of ISA 315 (Revised) requires the auditor to determine whether any of the risks identified are, in the auditor’s judgment, significant (without consideration of controls).</p> <p>b. We believe that some auditors may infer that the “low” and “not low” assessment of inherent risk represents the only scalability of ED 540 and then fail to recognize that the nature, timing, and extent of audit responses within the “not low” category will also vary according to the assessed risks of material misstatement. Instead of using these two categories to address the issue of scalability, we recommend that a more explicit and clearer link to ISA 315 (Revised) and ISA 330 be made. In other words, the auditor’s work effort in auditing accounting estimates remains based on the assessment of the risks of material misstatements, and the design and responses remains based on the assessed risks already required in ISA 315 (Revised) and ISA 330, respectively,</p>	3L. More AM (and an IAPN) needed for complex estimates	3A. A72 may contribute to not many estimates being assessed as low

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>with enhanced application guidance provided in areas of higher risk of material misstatement. This approach would help clarify that ED 540 is not a standalone standard but, rather, is incremental to the fundamental risk assessment in an audit already required under ISA 315 (Revised). However, we recognize that additional application material (and implementation guidance such as an IAPN) is needed to address audit challenges arising from more complex accounting estimates, such as those recorded using the expected credit loss model.</p> <p>...</p>		
Q3.54. AICPA	<p>Paragraph 15 of ED 540 retains the concept that events occurring up to the date of the auditor's report may constitute sufficient appropriate audit evidence in auditing an accounting estimate for use when inherent risk is "low." We have the following concerns with this requirement and related application material:</p> <p>a. With regard to the three testing strategies when inherent risk is "low," we recommend retaining them in ED 540 regardless of the assessed inherent risk. As currently drafted, all the application material on how to effectively apply the strategies has been deleted. Arguably, the three testing strategies and related application material are what is applied in all substantive procedures. The auditor either tests how management records transactions, including inspection of internal or external evidence, tests the settlement of transactions, or develops expectations to compare to management's balance.</p> <p>...</p>		<p>3J. Apply the three strategies and related AM regardless of assessed inherent risk</p>

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.55. AICPA	For some accounting estimates, determining whether events occurring up to the date of the auditor's report provide audit evidence (that is, testing the outcome of an accounting estimate) may be the most effective and efficient way of obtaining sufficient appropriate audit evidence (that is, in some circumstances this may be highly persuasive and sufficient evidence). Based on how ED 540 is drafted, incremental procedures could be read as being required to be performed if the risk assessment was influenced by one or more of the three factors, increasing the audit effort with potentially little benefit. Guidance in paragraph A75 of ED 540 indicates that the auditor could revise inherent risk after the outcome becomes known, but we question whether the focus should instead be on the sufficiency of evidence.		3J. A75 should focus on sufficiency of evidence rather than revising inherent risk after outcome is known
Q3.56. ANAN	In the Association's opinion, ED 540 does not provide sufficient quantifiable scaling system with respect to auditing accounting estimates when there is low inherent risk because the scaling is subjective and susceptible to individual professional accountant judgment. Nevertheless, the ED provided sufficient guidance that will enable the professional accountant develop appropriate skill when auditing accounting estimates including where there is low inherent risk. In our opinion, it would have been more appropriate if the ED can provide a quantitative scaling system.	Sufficient guidance on developing skills. 3A. Provide more guidance on quantifiable scaling?	
Q3.57. CAI	We note however that scalability is not addressed in the standard itself other than through the 'low risk' / 'not low risk' threshold. The terminology 'low risk' and 'not low risk' has not previously been used in ISAs and therefore we consider it necessary, in introducing this new concept, to make conforming amendments to the ISA 300 and ISA 315 as appropriate to reflect the concept of 'low risk' and 'not	3A. More guidance needed for low and not-low inherent risk.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	low risk' in these risk focused standards. It will also be necessary to include further application guidance to ensure consistent application of this threshold by auditors.		
Q3.58. CAQ	... The guidance for smaller entities (included in the Application Guidance of the Exposure) may lead some auditors to conclude that the risks associated with accounting estimates recorded by smaller entities and/or being audited by smaller auditing firms are generally assessed as "low" and, therefore, the expected level of work is different for a smaller entity. The identification and assessment of risk should be directly associated with the accounting estimate (including the components thereof) and the estimate's relationship to the financial statements and not the size of the entity or auditing firm.		3I. Risk should be associated with the estimate rather than size of the entity
Q3.59. EFAA	The bifurcation of and understanding as to what is meant by "low" and "not low" is critical. Our hope is that in the case of SMEs "low" is interpreted as a broad category, perhaps to capture accounting estimates that many SMPs currently classify as "moderate". Hence It is essential for the IAASB to include greater clarification on what is meant by low inherent risk and the link between inherent risk and risk of material misstatement. It might help if the application material acknowledged that there's considerable overlap between when inherent risk is low and 'simple' or 'non-complex' estimates and that the threshold should be at the higher end of complexity, judgment and estimation uncertainty.	3A. More guidance needed for low and not-low inherent risk.	
Q3.60. ICAEW	We make numerous references in this response to a need for more examples and guidance, and we acknowledge that we are asking a lot. We make no apology for this and have not made these points carelessly. We are asking for a lot because a lot is needed. To ask for these proposals, or	3L. General comment on need for more guidance.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	any ISA, to serve the largest of financial institutions and the smallest of audits may be asking too much. We do not underestimate the extent of IAASB effort involved in arriving at a position intended to cover both extremes, from the simplest depreciation calculation to the most complex of financial instruments and expected credit losses (ECL), but we believe that more detail is needed at both ends of the scale, not all of it in ISA 540.		
Q3.61. ICAEW	We have heard repeated calls for more specific guidance for the audit of banks and insurers, and we therefore strongly suggest that IAASB considers the development of guidance for the application of ISA 540 to the financial sector in the form of an IAPN. This should provide guidance on, among other things, the audit of forward-looking information and approaches to determining when a significant increase in credit risk has occurred. We understand that the Basel Committee is also in favour of an IAPN for this sector.	3T. More guidance in an IAPN for the financial sector.	
Q3.62. ICAEW	Even a simple loan, not at market rates, can arguably involve complexities and judgements. The accounting regime for smaller entities in the UK, based on the IFRS for SMEs, distinguishes between ‘basic’ and ‘other’ financial instruments and there are fears that regulatory pressure will mean that an estimate will need to be very low IR, or virtually no risk (if such a thing exists) before auditors can safely categorise it as low IR. Some suggest that the trigger should be at the higher end of complexity, judgement and estimation uncertainty to prevent the low IR category becoming redundant and IAASB might consider incorporating some nuance to this effect in the application material.	3A. More guidance needed for low and not-low inherent risk.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.63. ICAEW	In discussions about low IR estimates, the language used often reverts to 'complex' and 'simple'. We are aware that IAASB considered these terms and rejected them but it might be worth explaining in application, surround or implementation material that while there is considerable crossover between the 'low IR' and 'simple' or 'non-complex' estimates, they are not the same thing.	3A. More AM to explain low inherent risk is not the same thing as a simple estimate	
Q3.64. ICAEW	Currently, paragraph 10 (f) refers to the need under ISA 315 for auditors to understand the components of controls in relation to estimates. The extensive related application material mostly applies to larger audits and the only reference to the need for auditors to understand controls relevant to the audit (which is all ISA 315 actually requires) is in A100 and even then only in the context of 'very small entities'. The absence of reference to controls 'relevant to the audit' in paragraph 10f has the effect of overstating the case. A100 errs on the side of caution in this respect: controls may not be relevant to the audit in audits of any size.	3N. More balance in AM re controls relevant to the audit (e.g. A100) to cover all sizes of entity	
Q3.65. ICAEW	Enhancing the application material relating to controls might involve: <ul style="list-style-type: none"> <li>• suggesting that auditors consider whether a substantive approach alone is likely to be sufficient for not low IR estimates;</li> <li>• emphasising the ISA 315 statement that enquiries of management alone are insufficient to obtain an understanding of internal control;</li> <li>• suggesting that auditors obtain an understanding of the level at which controls operate, and how this is likely to prevent or detect material misstatement.</li> </ul>	3N. Suggestions to enhance AM relating to controls	



**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.66. ICAP	We also understand the more prescriptive approach of the ED 540 as compared to the principle based approach of extant 540 may cause lesser use of professional judgment and greater emphasis on the tick box approach, unless the guidance on scalability of the requirements of the ED 540 is given further consideration.	3R. More guidance on scalability needed.	
Q3.67. ICAP	In addition to the above, the ED 540 introduces the concept of 'low inherent risk' and explains the same in the context of audit of accounting estimates. We suggest that IAASB considers the appropriate placement of 'low inherent risk' in the ISAs, as it is relevant to various other areas of the audit. Further, evaluation by IAASB and guidance material is required in view of the possible practical difficulties, including scalability, which may arise with the inclusion of low inherent risk concept along with the 'not low inherent risk' classification in the ED 540.	3A. More guidance needed for low and not-low inherent risk.	
Q3.68. ICAS	... from a practical perspective there may be other factors that will affect the successful implementation of this revised standard on the audits of less complex entities. For instance, in the UK, the new financial reporting regime has resulted in some of these less complex entities having to deal with more subjective valuations and, as a result, additional work is required by the auditors to verify these valuations. However, the risk of a misstatement in these subjective valuations might be insignificant in terms of the extent of external third-party interest in, or scrutiny of, these entities' financial statements. The revised standard could benefit from clear guidance on the extent of work effort that would fulfil the standard's requirements in such circumstances. We do accept that this is an issue that stems from the requirements of the financial reporting framework but it does have consequences for the audit.	3D. Guidance on work effort for smaller entities dealing with more subjective valuations	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q3.69. <a href="#">ICAS</a>	We would also highlight that the examples provided of accounting estimates where the risk of material misstatement may be based on low inherent risk may not be the most appropriate (per paragraph A72). For example, we believe that there may be an increase in the risk of management bias where the profitability of the entity may directly impact upon the accounting estimate. i.e. management profit-related bonus, and, as a result, inherent risk is not low. To avoid any possible misinterpretation of these examples, we suggest that a statement should be inserted within paragraph A71 that emphasises the need for the auditor to consider the specific facts and circumstances of an accounting estimate before concluding as to whether the associated inherent risk is low or not low.	<a href="#">3A.</a> Better illustrate low and not low in <a href="#">A 71 and A72</a>	
Q3.70. <a href="#">SAICA</a>	SAICA suggests that the IAASB consider that the requirements and application material of the ED could be further scaled in respect of the risk assessment procedures and related activities. For example, it may not be necessary for the auditor to obtain the same level of understanding, including for each of the components of internal control, for less complex accounting estimates than for more complex accounting estimates.	<a href="#">3R.</a> More guidance on scalability.	
Q3.71. <a href="#">SAICA</a>	The IAASB should further be mindful that although a clear distinction is made between “When inherent risk is low” and “when inherent risk is not low”, there is, apart from paragraph A96, no application material (or no clear application material) relating to the work effort linked to “When inherent risk is low”. The approaches in ED-ISA 540 (Revised).15(a) have been retained from extant ISA 540.13, which include related application material. The IAASB should consider whether some of that application material	<a href="#">3J.</a> Restore some of the extant guidance for the approaches in <a href="#">paragraph 15(a)</a>	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	could be retained in the revised standard, adapted as required to the context of low inherent risk.		
Q3.72. SMPC	... Guidance on the demonstration of professional skepticism when auditing accounting estimates would be particularly helpful for SME auditors where the estimate is complex and management has used data and assumptions in a model. This is an emerging area for many SMEs and their auditors.	3D. Guidance on demonstrating scepticism for complex estimates	
Q3.73. SMPC	The SMPC fully appreciates the IAASB's recognition of the need to consider scalability as many audits performed world-wide concern smaller and less complex entities. While many accounting estimates in SME financial statements will be assessed as low inherent risk, this will not be the case with all of them. We note above the need for better quality guidance on how the extensive and complex requirements relating to non-low IR estimates apply to the audit of SMEs. We broadly support the notion of low inherent risk as a threshold, but also strongly believe that there could be further scalability in the approach when the inherent risk is not low. For example, it should be made clear that the three procedures listed for low inherent risk estimates (paragraph 15 (a)) may also be appropriate to other estimates - what is important is that the procedures designed and performed are an appropriate response to the specific risks.	3R. Need better guidance for SMEs on non-low inherent risk estimates and scalability.	
Q3.74. SMPC	It is essential for the Board to include greater clarification on what is meant by low inherent risk and the link between inherent risk and risk of material misstatement. There is a concern about which types of estimate fit in which 'bucket' and the size of these relative to each other. In particular, practitioners may waste time and effort trying to either fit, or not fit, an accounting estimate in one	3A. More guidance on low and not-low inherent risk	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	‘bucket’. It would be useful if the application material acknowledges that there is considerable crossover between when inherent risk is low and ‘simple’ or ‘non-complex’ estimates. Consideration could also be given to whether there is a way of indicating in the application material that the trigger should be at the higher end of complexity, judgment and certainly estimation uncertainty.		
Q3.75. <a href="#">SMPC</a>	In our view, it would be helpful if the IAASB could provide more detail on the examples of estimates that might be considered low inherent risk (A72), and others which are not (A73), and how they might be dealt with under various scenarios. We recommend that further SME examples could be included in a separate staff publication, but additional lists in the standard may not be helpful given the potential for misuse by practitioners and regulators and the length of the proposed standard. The staff publication could also cover the link between inherent risk and significant risk of material misstatement, how the standard can be applied efficiently to smaller audits and the expected level of documentation, so it is clear for both practitioners and regulators.	<a href="#">3A</a> . More guidance on the examples in <a href="#">A72</a> and <a href="#">A73</a> <a href="#">3T</a> . Further guidance could be in a staff publication	
Q3.76. <a href="#">SMPC</a>	There can be circumstances where auditors may be in a position to identify accounting estimates as being of low inherent risk without having first performed all the work steps required under proposed paragraph 10 of the ED, which are excessive. In particular, the requirements to understand each of the components of internal control as they relate to making accounting estimates (paragraph 10(f)), is not clear about the fact that controls auditors are required to understand are only those relevant to the audit. We therefore suggest this aspect be revisited to establish whether scalability in the required risk assessment procedures could be improved. We	<a href="#">3U</a> . Welcome the material in <a href="#">A10</a> , <a href="#">A23</a> and <a href="#">A60</a> in relation to smaller entities, but may need some refinement.	

**ED 540 - Responses referring to application material/guidance – Q3 - Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

Q3	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	acknowledge and welcome the material in A10, A23 and A60 in relation to smaller entities, which are generally considered helpful, although may still need some refinement. For example, the first sentence of A23 makes two references to “less complex”.		
Q3.77. NDEG	We suggest that the application material could better illustrate scalability in responding to assessed risks through providing further explanation and examples about what may be involved in obtaining sufficient appropriate audit evidence for simpler accounting estimates. For example, in relation to a non-complex (or “simple”) estimate, how events occurring up to the date of the auditor’s report may provide robust evidence about the estimate. Or, if testing management process, how re-performing a simple straight forward calculation, such as depreciation, or an analytical procedure to develop a point estimate for a simple, straightforward calculation, such as a payroll expense, may be appropriate.	3R. More guidance on scalability.	
Q3.78. NDEG	Recognising that risks exist along a spectrum, we believe it is preferable to reinforce the principle, as set out in the second part of paragraph 15, that the higher the assessed risk the more persuasive the audit evidence needs to be. This could be brought to life in examples within the application material.	3F. Give examples in AM to para 15 to illustrate the higher the assessed risk the more persuasive the audit evidence.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.1. BCBS	Many of these estimates are material to banks, such as ECL, fair value of financial instruments, and goodwill impairment. The complexity of these estimates is high because of the use of forward-looking information, complex models and externally developed models or data, amongst other factors. This increases estimation uncertainty, which consequently increases the risks of material misstatement for these estimates. Furthermore, changes to assumptions, models and data originating from management could add to estimation uncertainty. Given the inherent challenges these particular areas bring for management (in developing the estimate) and auditors (in gathering sufficient appropriate audit evidence), ISA 540 would benefit from additional guidance.	A. More guidance on complex estimates.	
Q4.2. BCBS	With respect to an auditor's responsibility to address the risks of material misstatement related to complex methods (or models), paragraph 17 requires auditors to verify whether the calculations are mathematically accurate and appropriately applied. The guidance should be further expanded beyond mathematical accuracy to sufficiently address the risks of material misstatement due to model complexity. For example, the Application Material after paragraph A106 should be further expanded to indicate that the auditor's approach to the testing of models could vary depending on the assessed risk of material misstatement. The approach could range	B. More guidance for complex models, e.g. in A106	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	from a simple model review for accounting estimates with low inherent risk, to auditing the performance of the model or independently developing an estimate based on the auditors' own assumptions and/or model (when, in the auditor's judgment, it is necessary and possible) for estimates where inherent risk is not low. Nevertheless, we would emphasise that given the nature of complex internal models within banks, it could prove to be very difficult for an auditor to independently develop their own model for ECL estimates. In that situation, the auditor should put emphasis on assessing the appropriateness of internal processes, including assumptions, controls and the reasonableness of management's ranges and point estimates, as well as the model's theoretical soundness and mathematical integrity.		
Q4.3. BCBS	<p>In addition, the Application Material should be expanded to include criteria for auditors in their consideration of the appropriate use of a particular approach. For example:</p> <ul style="list-style-type: none"> <li>A simple model review could be appropriate to address accounting estimates with an assessed risk of material misstatement that is low, based on low inherent risk. This could include a review of model documentation and methodology, management's</li> </ul>	B. Guidance on criteria for approach to models.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>governance processes and the internal control environment.</p> <ul style="list-style-type: none"> <li>Auditing the performance of the model may be appropriate to address accounting estimates for which the assessed risk of material misstatement is not low. This could include reviewing management's significant assumptions (considering the appropriateness of the data used and testing its integrity), reviewing the model's theoretical soundness and mathematical integrity, re-running the model to develop an expected outcome and back-testing procedures.</li> </ul>		
Q4.4. BCBS	<p>The modelling of many accounting estimates requires management to consider forward-looking information and scenarios. Auditing forward-looking information is arguably one of the more challenging aspects of an audit and the ED provides little guidance in this area. We strongly recommend that additional audit guidance be developed for this complex area. We believe this would be helpful, not only for complex estimates in banks, but also for many of the estimates that are within the scope of ISA 540, including those identified in paragraph A1 of the ED. With reference to banks, this guidance would be relevant to the auditor's assessment of ECL accounting estimates, where there is high subjectivity, for example in management's choice of scenarios (which incorporate</p>	A. Guidance on forward looking information.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	forward-looking information) and the related probability weights selected.		
Q4.5. BCBS	<p>We support the inclusion in paragraph A73 of examples where “the risks of material misstatement may be influenced by inherent risk that is not low”, and in particular that this should be the case for “accounting estimates.....such as an expected credit loss model in a financial institution that is active in different markets”. Paragraph A81 also recognises that ECL estimates are likely to be based on complex models. We note that the application of the ECL approach involves (i) a high level of complexity; (ii) the exercise of significant judgment; and (iii) high estimation uncertainty. For these reasons, we agree that the ECL assessments by banks should normally remain within the scope of ISA 540, notably because the inherent risk cannot normally be assessed as low for a bank. We make the following additional recommendations to ensure that the standard adequately emphasises the complexity of auditing ECL estimates:</p> <p>(a) Amend paragraph 13 to include the element of paragraph A73 mentioned above, except that the reference to banks using an ECL approach should not be limited to those banks active in different markets, and rather should extend to all banks. In addition, we strongly believe that the inherent risks related to ECL for banks</p>	<p>C. Support A73 and A81.</p> <p>D. Modify and elevate some of A73 to requirement para 13</p> <p>D. Elevate A78 to requirement para 13</p>	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>should systematically be considered not low as a rebuttable presumption.</p> <p>(b) Include the contents of paragraph A78 within the Requirements of paragraph 13, to require auditors to consider the factors listed in paragraph A78 when assessing the risks of material misstatement. We strongly believe that the regulatory environment, including relevant regulatory requirements, should be systematically considered as part of the assessment of the risks of material misstatement. In addition, we recommend that paragraph 13 include requirements regarding appropriate documentation in relation to the identification and assessment of the risks of material misstatement, especially when inherent risk is assessed as low.</p>		
Q4.6. <a href="#">CEAOB</a>	Some concerns have been raised regarding par 15, which is not consistently understood. We believe that the Board should consider adding more guidance or redrafting par.15 to state clearly whether the procedures foreseen in par. 15a) are applicable or not in cases when the inherent risk is not low. ...	E. Add more guidance/clarity to <a href="#">AM for para 15</a>	
Q4.7. <a href="#">CEAOB</a>	In par. 20 we believe the extent to which the amounts used to develop the auditor's range should be "supported by the audit evidence" should be further clarified, taking into account that all the data cannot always be checked against external data. The meaning of	E. Add more guidance/clarity to <a href="#">AM for para 20</a>	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	this paragraph needs to be developed through further references to other standards applicable or further guidance.		
Q4.8. EBA	Although, as mentioned above, we support the proposals for auditors to consider the factors listed in paragraph 13 when identifying and assessing the risk of material misstatement, we would like to stress that we consider that ECL accounting estimates should be systematically considered to have inherent risk which is not low. We therefore believe that paragraph A73 should not limit accounting estimates influenced by inherent risk that is not low to banks active in different markets but rather extend it to all banks. The fact that a bank is active in different markets is not considered relevant as such to the assessment of the risk of material misstatement related to accounting estimates.	E. Add more guidance/clarity to A73 (fourth bullet) to extend to all banks	
Q4.9. EBA	ECL accounting estimates will always be 'sensitive to the selection of different methods or to variations in the assumptions and data used' (as referred to in paragraph 13(c) and A92) and we consider that numerous factors could create sensitivity. In such context, we believe that it would be valuable that some additional guidance was provided on how an auditor needs to consider and assess an accounting estimate's sensitivity and how an auditor needs to document its consideration of the accounting estimate sensitivity.	E. Add more guidance on assessing sensitivity (e.g. in A92) and documentation thereof	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.10. EBA	Finally, we are pleased to note that auditors should, in line with paragraph A78, consider additional relevant factors, such as regulatory requirements, when assessing the risk of material misstatements. We would however recommend having such paragraph A78 placed as a requirement in paragraph 13 of the standard rather than in its application guidance as we consider that regulatory requirements (such as specific prudential own funds requirements for banks) will significantly impact and increase the risk of material misstatements related to accounting estimates.	D. Support A78 and elevate to a requirement	
Q4.11. EBA	... We also believe that in order for the revised standard to be effectively implemented, this approach should be enhanced by adding in the application guidance of the ED some examples of audit procedures to be performed in order to meet the objectives [of paras 17-19].	E. Add more guidance in the AM to paras 17-19 to illustrate audit procedures	
Q4.12. ESMA	While ESMA agrees with the matters of which the auditor needs to obtain audit evidence (paragraphs 17- 20 of the ED), we are of the view that they do not give an answer to the question what is sufficient appropriate audit evidence regarding cases with complexity, judgement or estimation uncertainty. We are of the view that specific audit procedures or specific practical guidance should be added to the application guidance.	E. Add more guidance in the AM to paras 17-19 to illustrate audit procedures	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.13. ESMA	ESMA is of the view that paragraph 18(c)(ii) that requires the auditor to obtain sufficient appropriate audit evidence on whether changes from the previous period's model are appropriate in the circumstances should be clarified. In particular, the guidance should address separately changes in the model and changes in the outcome of the model. ...	B. Add more guidance to the AM for para 18(c)(ii) on changes to, and outcomes of, models	
Q4.14. ESMA	Furthermore, ESMA is of the view that the application guidance in paragraph A126 should be turned into requirement in paragraph 19(b). Consequently, when in the auditor's judgment, management has not appropriately understood and addressed the estimation uncertainty; the auditor should request management to consider alternative assumptions or to provide additional disclosure relating to the estimation uncertainty, before developing its own estimate. At the same time, in our view, the IAASB should explicitly address the consequences of the auditors' assessment that management has not appropriately understood and addressed the estimation uncertainty on the audit opinion and on reporting of key audit matters	D. Elevate A126 to a requirement.	
Q4.15. ESMA	ESMA is of the view that evaluation of estimation uncertainty needs to be specified by (i) further clarifying paragraph A129 of the ED with regards to circumstances when it is appropriate to develop an auditor's point estimate and when a range and (ii) providing additional	E. Add guidance/clarity to A129. E. Add AM for para 20.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	application guidance how the criteria in paragraph 20 of the ED could be met.		
Q4.16. ESMA	ESMA welcomes the application guidance in the ED on the testing of effectiveness of internal controls over the accounting estimates and over the process of their preparation. In order to ensure that the auditors are required to test internal controls over the ECL in all appropriate circumstances (such as for financial institutions), guidance currently proposed for paragraph A98 should be further expanded and incorporated in the requirements section of the standard.	D. Expand A98 and elevate to a requirement.	
Q4.17. ESMA	ESMA also believes that the importance of the testing of internal controls over the accounting estimates should be highlighted when performing procedures related to risk assessment and responses to the assessed risk of material misstatement. In reference to the latter, ESMA suggests that the relevant guidance in paragraphs A48-A60 of the ED related to auditor obtaining an understanding of internal controls (paragraph 10(f) of the ED) could be linked and emphasised in the requirements related to the auditor responses to the assessed risk of material misstatement (notably to paragraph 16 of the ED).	F. Link A48-A60 to para 16.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.18. ESMA	While ESMA agrees with the matters of which the auditor needs to obtain audit evidence (paragraphs 17- 20 of the ED), we are of the view that they do not give an answer to the question what is sufficient appropriate audit evidence regarding cases with complexity, judgement or estimation uncertainty. We are of the view that specific audit procedures or specific practical guidance should be added to the application guidance.	E. Add more guidance for the AM for paras 17-20 to illustrate what is SAEE.	
Q4.19. ESMA	ESMA is of the view that paragraph 18(c)(ii) that requires the auditor to obtain sufficient appropriate audit evidence on whether changes from the previous period's model are appropriate in the circumstances should be clarified. In particular, the guidance should address separately changes in the model and changes in the outcome of the model. Furthermore, the auditor should be required to obtain sufficient appropriate audit evidence when assessing reasons for a significant change in the model or a significant difference in the accounting estimate as well as in situations when there is a significant change in circumstances but no significant change in related accounting estimate.	[Covered by Q4.13. ESMA]	
Q4.20. ESMA	Furthermore, ESMA is of the view that the application guidance in paragraph A126 should be turned into requirement in paragraph 19(b). Consequently, when in the auditor's judgment, management has not appropriately understood and addressed the	[Covered by Q4.14. ESMA]	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	estimation uncertainty; the auditor should request management to consider alternative assumptions or to provide additional disclosure relating to the estimation uncertainty, before developing its own estimate. At the same time, in our view, the IAASB should explicitly address the consequences of the auditors' assessment that management has not appropriately understood and addressed the estimation uncertainty on the audit opinion and on reporting of key audit matters.		
Q4.21. ESMA	ESMA is of the view that evaluation of estimation uncertainty needs to be specified by (i) further clarifying paragraph A129 of the ED with regards to circumstances when it is appropriate to develop an auditor's point estimate and when a range and (ii) providing additional application guidance how the criteria in paragraph 20 of the ED could be met.	[Covered by Q4.15. ESMA]	
Q4.22. ESMA	ESMA is disappointed that the requirements related to the documentation of the auditing of accounting estimates do not seem to be sufficiently developed in the ED. ESMA is of the view that it would be appropriate to expand and define the documentation requirements included in the paragraph 27 of the ED as well as cross-refer them to the requirements of paragraphs 8 and A10 of ISA 230 - <i>Audit Documentation</i> . While ESMA does not support repetition of the requirements of other auditing standards, ESMA is of the view that the IAASB should	D. Elevate A158, re documentation, to a requirement.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	consider transforming the relevant part of the application guidance specifically related to documentation of the audit of accounting estimates currently included in paragraph A158 into requirements within paragraph 27 of the ED.		
Q4.23. ESMA	ESMA appreciates the reference to the link between certain aspects of the audit of accounting estimates related to estimation uncertainty and the key audit matters in paragraph A125 of the ED. However, ESMA strongly believes that the interaction between the audit of accounting estimates (and notably the auditor work on assessment of its elements of estimation uncertainty, management judgement and complexity) and key audit matters should be further developed in the requirements section of ISA540 (Revised).	D. Support for A125. Elevate elements to a requirement.	
Q4.24. ESMA	ESMA welcomes the requirements of paragraph 21 on the audit of disclosures related to accounting estimates. ESMA highly appreciates the requirements of paragraph 21(a) and strongly supports the requirement that the auditor should evaluate whether the management has provided all the disclosures that not only meet the objective of the disclosure requirements but also ensure fair presentation of the financial statements as a whole. However, ESMA is of the view that this requirement could be better explained (e.g. by building on the description provided in paragraph A120 that seems to be	D. Support for A120. Elevate elements to requirement para 21. E. Add more guidance in AM for para 21.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	more clear and explicit as the requirements) and further exemplified in the application guidance.		
Q4.25. <a href="#">IAIS</a>	we feel the guidance material around third-party model considerations within para. A104 should be expanded, given the additional risks that management may not be fully aware of and/or have complete documentation relating to the model's limitations and features.	B. More guidance in <a href="#">A104</a> for models.	
Q4.26. <a href="#">IAIS</a>	<p>there could be a stronger link established between the associated categories of an inherent risk that is not low and a significant risk, ...</p> <p>To establish a stronger link, the IAASB may want to consider ...</p> <ul style="list-style-type: none"> <li>- Including the following additional wording at the end of the para. A76 "...including control activities <u>relevant to that specific risk</u>.", as this would better reflect the ISA 315 specific requirements linked to the fact that a risk is considered a 'significant risk'.</li> <li>- Expanding para. A76 to highlight the important ISA 315 para. 27 consideration that "In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk."</li> </ul>	E. Add more guidance in <a href="#">A76</a> , to better reflect ISA 315.	
Q4.27. <a href="#">IAIS</a>	Generally, we believe there is sufficient guidance in relation to the proposed objectives-based	C. Support for <a href="#">AM to paras 17-19</a> .	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>requirements in para. 17 to 19. However, we are concerned with the potential for confusion around the use of particular nuanced key words in multiple contexts within the ED, for example:</p> <ul style="list-style-type: none"> <li>As noted within para. A2, the notion of 'reasonable' that is used in various paragraphs is meant to indicate that all the relevant requirements of the applicable financial reporting framework have been applied appropriately. This definition of 'reasonable' is clearly meant to be different from the meaning of 'reasonable assurance' (para 37 in ISA 700), and is (as outlined in A3) not identical to the meaning of 'appropriate'. However, we are concerned that the nuances being applied to these commonly used words can create confusion. The IAASB should ensure that the definitions introduced are consistently applied; we note that the use of the term 'reasonable' in para. A124 does not appear to be consistent with its definition in para. A2;</li> <li>The para. 9 (f) definition of 'outcome of an accounting estimate' clearly highlights it is an actual monetary amount that results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by an accounting estimate. However, we note the term 'outcome(s)' is used in the ED in different</li> </ul>	<p>G. Clarify 'reasonable' and consistency of use (ref A2 and A124); clarify 'outcomes' and consistency of use (ref definitions and A109)</p>	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>contexts, many which are relevant for the audit of insurance contract liabilities (“range of outcomes”, “outcomes scenarios” etc.), and so this may create some confusion. Also the term ‘outcomes of the accounting estimates’ is used in para. A109 within a context that is not consistent with the para. 9(f) definition.</p> <p>We suggest this wording be revisited to increase clarity.</p>		
Q4.28. <a href="#">IFIAR</a>	Provisions described in paragraph A95 should be deleted from the ED to ensure the auditor understands that the audit response is based on inherent risk only, because A95 suggests that a combined risk assessment is permissible.		H. Delete <a href="#">A95</a> .
Q4.29. <a href="#">IRBA</a>	Paragraph A39 of ED-540 provides application material on data, including data that is observed directly and derived data. Although derived data is explained, it would be beneficial to provide examples of derived data.	E. Add examples to <a href="#">A39</a> .	
Q4.30. <a href="#">IRBA</a>	Paragraph A49 of ED-540 notes that some accounting estimates may be significantly affected by, or subject to, complexity, the need for use of judgment by management and estimation uncertainty. It further notes that in such cases it will be more important for the auditor to understand the design and implementation of relevant controls, and also to test their operating		I. <a href="#">A49</a> may be misleading – not consistent with ISA 315 ISA 315

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	effectiveness in addressing the assessed risks of material misstatements. The first part of this statement, as it relates to it being more important to understand the design and implementation of relevant controls, may be misleading because the auditor is always required to understand the design and implementation of relevant controls (ISA 315 (Revised), paragraphs 26(a) and A132) and this paragraph should therefore be amended.		
Q4.31. IRBA	Paragraph A55 of ED-540 deals with understanding an entity's risk assessment process when the entity has such a process in place. Paragraph A55 does not deal with the situation when an entity does not have a formal risk assessment process in place, as anticipated in paragraph 17 of ISA 315 (Revised). Even though ED-540 should be read together with ISA 315 (Revised), ED-540 should also deal with the situation when an entity does not have a formal risk assessment process in place.	E. Add guidance for when an entity does not have a formal risk assessment process (supplement A55)	
Q4.32. IRBA	Paragraphs A72 and A73 of ED-540 provides examples, respectively, of accounting estimates with low inherent risk and with inherent risk that is not low. These two paragraphs would be better placed as application material to paragraph 15 of ED-540, with paragraph A72 placed above paragraph A96 and paragraph A73 placed above paragraph A97.	F. Support for A72 and A73 but reposition to link to para 15.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.33. IRBA	A more robust explanation about other relevant factors should be included in the requirements of ED-540. This could be achieved by elevating paragraph A78 to a requirement and having it introduced as paragraph 13A.	D. Elevate A78 to a requirement.	
Q4.34. IRBA	Regarding paragraphs 17-19 of ED-540, guidance should be provided on how the auditor should respond when an event that may affect the forward-looking inputs/variables/assumptions and ultimately the impairment provision (e.g. sovereign credit downgrade or severe devaluation in currencies) occurs after the balance sheet date, but before the audit report is signed.	E. Add further AM to paras 17-19 on forward events that occur before sign-off.	
Q4.35. IRBA	Regarding paragraphs 19(b) and 20 of ED-540:  i. It is noted that the more obscure the inputs/variables/assumptions are within a model to develop an impairment provision, the more difficult it will be for management and the auditor to develop a close/tight range. This, along with other obscure inputs/variables/assumptions, may adversely affect the extent of estimation uncertainty related to an impairment provision. Therefore, it is necessary that ED-540 provide more guidance on this matter as it will likely be more prevalent in developing economies.  ii. The auditor may be required to “stress-test” each input/variable/assumption where the auditor	B. and E. Add further AM to 19(b) and 20 on:  <ul style="list-style-type: none"> <li>• Inputs to models.</li> <li>• Stress tests</li> <li>• Consistency of inputs</li> </ul>	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>concludes that management's input/variable/assumption does not fall within the auditor's range and determine the effect of that difference on the impairment provisions. The ED-540 should provide more guidance on this matter.</p> <p>iii. It is important for the auditor to test that the inputs/variables/assumptions used when calculating an impairment provision should be the same inputs/variables/assumptions as those used by management when developing budgets and considering pricing. ED-540 should provide more guidance on this matter.</p>		
Q4.36. IRBA	Regarding paragraphs 13 and A74, ED-540 should provide more guidance on the extent of further audit procedures and how the auditor should respond when the auditor has identified that an accounting estimate is subject to, or affected by, more than one of the relevant factors.	E. Add guidance to A74 for when estimate is subject to, or affected by, more than one of the relevant factors.	
Q4.37. IRBA	Paragraph 15 of ED-540 concludes with the sentence: "The auditor's further audit procedures shall be responsive to the reasons for the assessment given to the risk of material misstatement in accordance with paragraph 13, recognizing that the higher the assessed risk of material misstatement the more persuasive the audit evidence needs to be." However, ED-540 does not provides sufficient guidance to auditors on the extent of further audit procedures and how the auditor should	N. Add AM for significant risks.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	respond when the auditor has identified a significant risk. Additional guidance in this regard should be provided.		
Q4.38. UKFRC	Using the term 'reasonable' for both the estimate and disclosures, subject to ensuring its meaning, and that of "appropriate", is clear as set out in paragraphs A2 and A3, which we recommend are incorporated in the definitions. We comment further on this in our response to Q4(c), including recommending that paragraph A123, which currently supports A2, is elevated to a requirement.	C. Support for A2 and A3 – include in definitions. D. Elevate A123 to a requirement.	
Q4.39. UKFRC	There is a very significant amount of application material in comparison to the number of requirements. We are concerned that some of the application material identifies actions that would be expected of the auditor in particular circumstances, but their presentation as actions the auditor 'may' take risks them not always being performed when appropriate and could lead to inappropriate or inconsistent practice. We strongly recommend that the IAASB review all the application material and consider whether designating potential actions by the auditor as "may" is appropriate. Where they represent actions that should be expected when applicable circumstances exist that should be made clearer, eliminating the "may" and/or moving the points to requirements. We comment further on this, with examples, in our response to Q4(c).	J. Undertake critical review of guidance and consider whether "may" is appropriate.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.40. UKFRC	<p><u><i>Balance between requirements and application material</i></u></p> <p>As stated above we support having the work effort requirements expressed in an objective/outcome based manner as this facilitates the flexibility needed to address different types of accounting estimate and proportionality, whilst driving more consistent and granular work effort to obtain sufficient appropriate audit evidence. However, there is a fairly high amount of guidance given in relation to paragraphs 17 to 19 (indeed the ED in general includes a high amount of guidance in relation to the number to requirements) and we believe that it would be appropriate to elevate some of that guidance to the requirements. For example:</p> <p>A101 – When management uses a complex method, the expectation ought to be that the auditor will consider whether there were other available valuation concepts, techniques or factors, types of assumption or sources of data that, in the circumstances, might have been more appropriate, or more generally accepted, in the context of the applicable financial reporting framework.</p> <p>A105 third bullet - When the accounting estimate is based on complex legal or contractual terms, it is to be expected that the auditor would inspect the underlying contract.</p> <p>A123 - We believe that, when applicable, these matters “will” be relevant in obtaining sufficient appropriate audit</p>	<p>D. Elevate to requirements: A101, A105 (third bullet; A123; A126</p>	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>evidence. See also our further discussion of this in the Attachment to this letter.</p> <p>A126 - We believe that when, based on the audit evidence obtained, in the auditor's judgment, management has not appropriately understood and addressed the estimation uncertainty, before the auditor moves to develop an auditor's point estimate or range, it should discuss the circumstances with management and obtain an understanding of why management has not appropriately understood and addressed estimation uncertainty. If appropriate, the auditor should ask management to consider alternative assumptions or to provide additional disclosure relating to the estimation uncertainty.</p> <p>We strongly recommend that the IAASB review all the application material and consider whether designating potential actions by the auditor as "may" is appropriate. Where they represent actions that should be expected when applicable circumstances exist that should be made clearer, eliminating the "may" and/or moving the points to requirements.</p>	[Covered by Q4.39. UKFRC]	
Q4.41. UKFRC	We also believe that, given the importance of understanding the meaning of "reasonable" and "appropriate", paragraphs A2 and A3 should be reworked and included as definitions of those terms.	[Covered by Q4.38. UKFRC]	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.42. UKFRC	<p>Much of the application material on internal control relates to obtaining an understanding of internal control. With regard to intended reliance on internal control, the application material in paragraph A98, which supports paragraph 16, focusses on where substantive procedures alone may not provide sufficient appropriate audit evidence at the assertion level and gives examples of such circumstances. We suggest that further guidance could be given to help the auditor when it intends to rely on internal controls that may be relevant in the audit of estimates. In particular, given the different nature of the potential misstatements that can arise from different factors, there would be merit in considering additional guidance about the types of control that may be relevant in the context of each type of misstatement, addressed in relation to each factor.</p> <p>Paragraph 95 of IAPN 1000 provides a list of factors the auditor may consider in reaching a decision on the nature, timing and extent of testing of controls. Suitably adapted, these could provide a starting point for guidance to include in ISA 540.</p>	K. Add more AM to para 16 on internal control	
Q4.43. UKFC	When developing guidance on the design and performance of internal controls, it will be helpful to link this to the earlier guidance on understanding internal controls, which should be amended as necessary so that all the guidance aligns.	K. Link and align any new guidance on internal control with earlier guidance.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.44. AUASB	... The AUASB considers that much of the content included in paragraphs 17-19 should be matters for consideration rather than requirements and accordingly should be instead included as application material for the content included in paragraph 13.	L. convert paras 17-19 to AM for para 13	
Q4.45. AUASB	While improved and additional application material may be beneficial, the AUASB considers that the current ED is verbose and overly prescriptive, leading to diminution of auditor's professional judgement. Additionally, the language and layout of the application material is more editorial and background in nature, as compared with what we expect application material to constitute - practical examples and other explanatory details and procedures that are included for the purposes of understanding, and complying with, mandatory requirements. To this end, it is becoming difficult to extract the true guidance from the "for information/background" only material. This background information should be removed from the application material and either included in appendices, similar to the approach taken in Appendix 2 of the ED, or separate illustrative guides.		M. Identify and reposition educational/background guidance.
Q4.46. CAASB	Paragraphs A39 to A42 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, allow for a separate assessment of inherent risk.	P. Add guidance on assessing inherent risk.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	However, requiring such an assessment, as implied under paragraph 15, is new to the ISAs. Consequently, our stakeholders raised many questions and had varied interpretations around the application of this requirement. In the absence of additional guidance, we are concerned that the auditor may do either too much or insufficient work in classifying inherent risk as low or not low.		
Q4.47. CAASB	<p>We believe that further clarity is warranted with respect to the following:</p> <ul style="list-style-type: none"> <li>How the auditor assesses whether inherent risk is low; for instance, whether all three of the risk factors need to be considered low or not applicable for inherent risk to be identified as low, and whether there are other considerations of conditions and events that should be considered.</li> <li>Inherent risk assessment of not low may encompass a range of possible risk levels, including risks assessed above low up to and including significant, which may impact the design of further audit procedures under paragraph 7(a) in ISA 330.</li> <li>Whether the auditor may assess or revise inherent risk as low when the outcome of an accounting estimate becomes known during the audit. Such guidance is provided in paragraph A75, but is not sufficiently clear and prominent to readers.</li> </ul>	P. Add further guidance/clarity on inherent risk.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.48. CAASB	We believe that it is critical that ISA 540 (Revised) be clear that the auditor can select one or a combination of approaches in testing accounting estimates when inherent risk is not low, such as those listed in paragraphs 15(a). Moving material from paragraph A97 to 15(b) will give the available approaches to testing accounting estimates more prominence and address some of the confusion. ...	D. Elevate material from A97 to requirements.	
Q4.49. CAASB	The risk factors are not precisely defined. The lack of precise definitions at the outset of the standard, makes it difficult for readers to assign a meaning to the terms as they encounter them in ED-540. Including definitions may enable streamlining the large amount of application material in relation to the three factors, thus improving readability.	G. Add definitions of the risk factors.	
Q4.50. CAASB	Paragraph 17(d) requires the auditor to obtain sufficient appropriate audit evidence about whether the integrity of significant data and significant assumptions has been maintained in applying the method. Our stakeholders questioned what is meant by 'integrity of significant data' and 'integrity of significant assumptions'. We believe clarity should be provided on these two phrases. For example:	G. Clarify meaning of "integrity of significant data" and "integrity of significant assumptions" as used in para 17(d)	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<ul style="list-style-type: none"> <li>The “integrity of significant data” could be clarified by drawing from the application material in paragraphs A107 to A109 of ISA 315, which refers to the integrity of data or accounting records</li> <li>The “integrity of significant assumptions” could be clarified as to whether it is referring to aspects such as the judgment in the assumptions, the completeness of the assumptions, or the processes used in applying the assumption</li> </ul>		
Q4.51. CNCC-CSOEC	We consider the definition of the term “significant data”, which is mentioned several times in paragraphs 17-18, to be important in the understanding of the respective requirements. We would therefore suggest moving the explanation included in paragraph A35 to the “Definitions” sections in page 31 of ED-540 or otherwise have it properly signposted.	G. Clarify meaning of significant data by moving explanation in A35 to a definition.	
Q4.52. HKICPA	it would be clearer if the IAASB elevates the first sentence in paragraph A78 to paragraph 13 so that auditors are aware that the relevant factors currently listed in paragraph 13 are not exhaustive.	D. Elevate first sentence of A78 to requirement 13.	
Q4.53. HKICPA	We would recommend the IAASB to include further guidance on what further work or procedures the auditor should consider for other factors such as	E. Add guidance on changes in AFRF and leveraging work in other ISAs	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<input type="checkbox"/> matters to consider when there are changes in the requirements of the applicable financial reporting framework; impacting accounting estimates  <input type="checkbox"/> leveraging on the work carried out in other ISAs, e.g. ISA 240, ISA 250		
Q4.54. HKICPA	We believe there is sufficient guidance for the requirements. [17-19]	C. Support for the AM to paras 17-19	
Q4.55. IDW	In our view, there is too much guidance. The IAASB should not be writing a textbook on auditing in its standards. There is considerable room to rationalize the application material.		H. Rationalise the guidance.
Q4.56. JICPA	We support that ED-540 requires the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors. However, we consider that further clarification is necessary about the interrelationship between the three factors (i.e. complexity, judgment and estimation uncertainty). We understand that the third sentence of paragraph 2 ("The extent to which they are subject to, or affected by, complexity and judgment is often related closely to the extent to which they are subject to, or affected by, estimation uncertainty.") and the last sentence of paragraph A113 ("This is important so that the selection of management's point estimate, and the	E. Add more guidance /clarity on the interrelationship between the factors.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	development of related disclosures, is based only on estimation uncertainty.”) in ED-540 intend to explain the interrelationship between the three factors. However, it does not clarify the implication that this interrelationship has on the auditor’s procedures.		
Q4.57. JICPA	This flow (paragraphs 17 to 20) is not clear from the context of ED-540. In order to assist the auditors in applying the requirements in paragraphs 17 to 20, we propose to add in Application Materials relevant to paragraph 15(b), for example, an explanation that clarifies the interrelationship between requirements in paragraphs 17 to 20.	E. Add AM to para 15(b) to clarify the interrelationship between requirements in paragraphs 17 to 20.	
Q4.58. MAASB	The ED-540 uses the term inherent risk in response to the assessed risks of material misstatements. Application material A42 of ISA 200 states that the ISAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risk of material misstatement.” There appears to be inconsistency in the use of terminology. If the IAASB has a specific reason to specify only inherent risk, perhaps this should be made clear in the application material of the proposed standard.	P. Add further guidance/clarity on inherent risk.	
Q4.59. NBA	[re the three factors] ... In the public interest we feel that it is necessary to provide as much guidance as necessary to ascertain that auditors perform the necessary	E. Add examples of possible procedures [for paras 17-19]	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	procedures. Although we already worry about the extensiveness of application material we strongly believe that it is necessary to provide detailed examples of possible procedures (see response to Q4a)		
Q4.60. NBA	Developing an own model might endanger the independence of the auditor. Therefore guidance should be provided to avoid that the auditor takes over management responsibilities. Therefore management should provide a representation that they agree to the model of the auditor and take responsibility for the estimate, based on the model.	E. Add guidance/clarity that auditor not taking on management responsibility when developing own estimate/range.	
Q4.61. NBA	Although we already worry about the extensiveness of application material we strongly believe that it is necessary to provide detailed examples of possible procedures (see response to Q4a).	[Covered by Q4.59 NBA]	
Q4.62. NBA	We question whether it is clear when an auditor should develop his own point estimate or range and whether this is appropriate. This could result in a disproportionately high work effort for the auditor and an unwanted situation where the auditor performs the work that management should do. We recommend to give more guidance in the following areas: should the auditor build his own model when the model of management is not appropriate or does this go too far and can this only be done as last resort? Developing an	B. and E. More guidance on use of own model	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	own model might endanger the independence of the auditor. Is it appropriate to disapprove the model of the management? How should this be disclosed as this might be sensitive to disclose and will this have an effect on the auditor's opinion? (see also Q5)		
Q4.63. NBA	If inherent risk is low, the auditor should also consider developing a point estimate or range to evaluate management's point estimate. This is not further explained. Is this realistic if inherent risk is low? We recommend to give more guidance in this area.	E. Add guidance/clarity on developing own point estimate/range when inherent risk is low.	
Q4.64. NZAuASB	As drafted, the requirements apply to all estimates with an inherent risk assessed as "not low". The auditor uses judgement to determine the extent of work effort required. In our view, the requirement is that the auditor obtain sufficient appropriate audit evidence. The matters under paragraphs 17-19 that the auditor is required to obtain sufficient appropriate audit evidence about are in our view application material to the requirement. For example, in paragraph 17, an objectives-based requirement would be that the auditor obtain sufficient appropriate audit evidence related to management's use of a complex method (including complex modelling) or when management's method otherwise involves the use of specialised skills or knowledge. The matters indicated in paragraphs (a) – (e) are the matters that auditor may	L. convert paras 17-19 to AM	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	consider in obtaining sufficient appropriate audit evidence.		
Q4.65. NZAuASB	<p>As noted in the introductory comments, there are a number of sections within ED-540 that, in our view, contain unnecessary content. Either because they</p> <ul style="list-style-type: none"> <li>state the obvious;</li> <li>discuss fundamental concepts which in our view should be well understood by the auditor and are not specific to auditing accounting estimates; or</li> <li>repeat issues already addressed in the exposure draft.</li> </ul> <p>This has the effect of making the standard longer than it needs to be (ED-540 includes 17 requirements and 211 application paragraphs). It also potentially detracts from the expectation that the auditor should be applying professional judgement to each engagement based on the auditor's knowledge and understanding of the entity subject to audit and its operating environment.</p> <p>In addition, we consider that the role of the auditing standard is to guide the auditor. While the NZAuASB acknowledges that it is sometimes helpful to include information about the responsibilities of management</p>		H. Rationalise the guidance.

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	and those charged with governance, in our view, such references should be limited to essential explanatory material.		
Q4.66. NZAuASB	Accordingly, the NZAuASB recommends that the IAASB carefully consider the relevance of each of the 211 application paragraphs to ED-540 with a view to determining whether the guidance is essential.		H. Rationalise the guidance.
Q4.67. BDO	When assessing risk, paragraphs 28(c) and 28(e) of ISA 315 (Revised) imply that complexity and subjectivity, or judgment, are indicative of significant risk of material misstatement. In addition, the application and other explanatory material related to low inherent risk estimates may suggest, unintentionally, that few estimates would be considered low inherent risk. As we noted in answer to question 3 above, there is also the potential for confusion due to the introduction of the concept of low risk within one particular ISA. Therefore, we suggest including more guidance, including examples, relating to accounting estimates with low inherent risk as mentioned previously.	P. Add more guidance on low inherent risk.	
Q4.68. BDO	... We suggest adding more examples to those listed in paragraph A74 of accounting estimates where only one of the factors are present and describing how the factors are interrelated.	E. Add more examples to A74.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.69. BDO	ED-540 encourages and directs the practitioner to consider the cause of the risk underlying the estimate, being complexity, judgment and estimation uncertainty. This is different from the extant ISA whereby the underlying components of the estimate, being the model and assumptions, were assessed instead of that assessment taking place at the estimate level. ED-540 also varies from the approach taken in the proposed Public Company Accounting Oversight Board (PCAOB) standard on auditing accounting estimates and is not congruent with the way management approaches uncertainty in their estimates, making it hard to correlate discussions and analysis with management. We recommend including guidance on performing these assessments at the estimate level as required under ED-540.	E. More guidance on assessing the factors at the estimate level.	
Q4.70. BDO	We note that there is increased pressure from regulators on challenging management's judgments and we suggest including practical guidance on how this can be performed when auditing accounting estimates. On the factor of judgment, additional clarification on whether there is a requirement to assess the extent of judgment exercised by any experts used in the process of formulating or reviewing accounting estimates (whether provided by management's experts or auditor's experts) would also be helpful.	E. Add guidance on: challenging management, and assessing judgment exercised by experts.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.71. BDO	The requirement for the auditor to develop a point estimate or a range when they have determined that management has not appropriately understood and addressed estimation uncertainty described in paragraph 19(b) seems to suggest that there could be a control deficiency. If this is the case, we suggest that ED-540 identify that a control deficiency may exist in these circumstances. Guidance on considerations the auditor may have in evaluating and responding to potential control deficiencies related to the company's estimation process would also be helpful.	K. Guidance on control deficiencies where management has not appropriately understood and addressed estimation uncertainty.	
Q4.72. BDO	There are various objectives listed in paragraphs 17 to 19 relating to complexity, judgment and estimation uncertainty. We suggest clarifying whether some or all of the objectives are to be addressed in responding to the risks related to these factors. Guidance regarding the level and amount of procedures to address some or all of the objectives listed would assist in determining the sufficiency of work effort. We also suggest including guidance, with examples, of the level of work effort that would be required when a SRMM is identified.	E. More AM in relation to paras 17-19	
Q4.73. DTT	Paragraph 15a Delete, given that the focus on risks of material misstatement, and the introduction of three strategies reflected in paragraph 14A of ED-540, would allow for an appropriately focused auditor response when designing and performing further audit procedures.	L. Add AM in place of para 15(a)	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	Application guidance can be added to explain this further as considered necessary.		
Q4.74. DTT	Paragraph 15b Delete, given that the focus on risks of material misstatement, and the introduction of three strategies reflected in paragraph 14A of ED-540, would allow for an appropriately focused auditor response when designing and performing further audit procedures. Application guidance can be added to explain this further as considered necessary.	L. Add AM in place of para 15(b)	
Q4.75. DTT	Paragraph 23 Retain with additional application guidance describing that the assessment needs to take place at the individual accounting estimate level and then in the aggregate when considering all accounting estimates.	E. Add further AM to para 23.	
Q4.76. EYG	We are concerned about the practical implementation of a work effort driven by the individual applicability of the three factors of complexity, judgment and uncertainty to an accounting estimate. As noted in several places throughout the application material of ED-540 and in Appendix 2, these three factors have inherently overlapping characteristics. We are not convinced that the auditor needs to “draw lines” between the factors, as currently implied in these paragraphs, in order to design effective responses to the risks of material misstatement. To the contrary, we believe requiring the auditor to draw	I. Questioning guidance	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	such clear distinctions runs the risk of auditors designing responses that are not sufficient for estimates that have “not low” inherent risk.		
Q4.77. EYG	No [re sufficiency of guidance for 17-19], in our view, there is a missing critical relationship in ED-540 between the objectives-based requirements in paragraphs 17-19 and the three available testing approaches for accounting estimates for which inherent risk is “low”. We believe the objectives-based requirements in paragraphs 17-19 (a) are essentially requiring the auditor to take the approach of testing how management made the accounting estimate and the data on which it is based. Further, paragraph 19 (b) requires the auditor to develop a point estimate or range when certain conditions are met. In order to bring sufficient clarity to the risk-differentiated approach in ED-540, we strongly believe it is necessary to place the objectives-based requirements in the context of the testing approaches that are proposed to only be relevant to accounting estimates for which inherent risk is “low”.	[See Q4.78. EYG below.]	
Q4.78. EYG	To summarize, we suggest amendments to the approach to further audit procedures for accounting estimates for which the inherent risk is “not low” in ED-540 that include:  ...	E. Add AM [to paras 17-19] that explains how the procedures for the individual objectives may be scaled.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	Adding application material that explains how the procedures for the individual objectives may be scaled depending on the nature of the accounting estimate, including taking into account the information obtained during risk assessment about complexity, judgment and estimation uncertainty.		
Q4.79. EYG	We also believe that “significant assumptions” should be a defined term in ED-540 and we are not convinced that the term “significant data” is necessary (refer to Appendix 2 for further details of our views in this regard). Refer also to our response to Q1 for our suggestions regarding additional application material for paragraph 19.	G. Define “significant assumptions”.	
Q4.80. GTI	We are also of the view that more guidance is required in ED 540 to assist the auditor in complying with the requirement in paragraphs 27 and 28 of ISA 315 (Revised) when determining whether the estimate is considered a significant risk. ED 540, in paragraph A76, refers the auditor to ISA 315 (Revised) but does not include consideration of the factors identified in ISA 315 (Revised) in the context of the three factors in ED 540.	N. Add AM for significant risks.	
Q4.81. GTI	Further, when considering the nature of accounting estimates, paragraph 3 of ED 540 notes that the susceptibility of an estimate to misstatement may increase due to estimation uncertainty. ED 540 implies	E. Add guidance in A113-A115 to clarify how management “address” EU and what is expected.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	that the auditor should determine that management has taken steps to address estimation uncertainty. Application material in paragraphs A113 to A115 provide further guidance on management's steps to understand and address estimation uncertainty. However, this guidance does not clarify what is intended by the term "address." For example, is it sufficient for management to measure and disclose estimation uncertainty? Do management have the responsibility to minimize estimation uncertainty? We interpret this to mean, where possible, estimation uncertainty is reduced to a level below performance materiality. If estimation uncertainty cannot be reduced to a level below performance materiality, then we would interpret this to mean that estimation uncertainty should be minimized. Further, we are of the view that estimation uncertainty should be evaluated and disclosed as necessary. We would therefore recommend that additional application material is considered for ED 540 to clarify what is expected.		
Q4.82. GTI	We would therefore recommend the consideration of additional explanatory material in proposed paragraphs A72 to A74 to assist the auditor in assessing the risk of material misstatement related to an accounting estimate, specifically: <ul style="list-style-type: none"> <li>Whether one of the factors of complexity, judgment or estimation uncertainty should be considered more</li> </ul>	P. Add guidance to A72-A74 about assessing RoMM and inherent risk	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>prominent than the others. For example, ISA 315 (Revised) recognizes complexity and estimation uncertainty as significant risk indicators but does not recognize judgment. Should it be inferred that this factor is of less importance than the others? This may also be an issue for consideration in the IAASB's ISA 315 (Revised) project.</p> <ul style="list-style-type: none"> <li>Whether it is possible to identify certain factors that give rise to the risk, but still conclude that the inherent risk is low. If that is possible, is there a threshold from which it is determined that it would no longer be reasonable to conclude inherent risk is low? For example, if an estimate has an assessed inherent risk of low for complexity and estimation uncertainty and not low for judgment; could we conclude that overall inherent risk is low and thus the requirements of ED 540 paragraph 15(a)(i) – 15(a)(iii) can be applied? On the other hand, does the fact that judgment has been assessed as not low, irrespective of the overall assessment of inherent risk, mean that the requirements in ED 540 paragraph 18 must apply? Alternatively, if we have an estimate with an assessed low level of complexity, judgment and estimation uncertainty, could we conclude that the inherent risk is low or does the accumulation of the three criteria result in the determination that inherent risk is not low?</li> </ul>		

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.83. GTI	<p>We are of the view that it should be made clear in the application material of ED 540 that a combination of factors could be identified as the reason for the assessed risk of the estimate. Further, to assist auditors in determining which factor or factors drive the risk, examples where multiple factors drive the risk would be helpful in understanding the distinction between the three factors. We would suggest that these other examples include:</p> <ul style="list-style-type: none"> <li>• Estimating depreciation for an entity with a large fixed asset base – for example, an entity specializing in energy distribution, which requires complex monitoring systems and processes but less judgment and typically involves a low degree of estimation uncertainty</li> <li>• The estimate of future income tax assets that can be recognized – this requires considerable judgment in the assessment of future taxable profits and may present significant estimation uncertainty if projections are a long way in the future but generally require less complex systems and processes for its establishment.</li> </ul>	E. Add guidance/clarity: that a combination of factors could be identified as the reason for the assessed risk of the estimate; and on the distinction between the factors.	
Q4.84. GTI	Further, distinguishing between estimation uncertainty and judgment may be difficult in practice and based on the definitions included in ED 540, these two factors would appear to be very closely related. For example,	E. Add further guidance/clarity on the factors	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	where the inherent risk of an estimate is determined to be not low due to estimation uncertainty this will inherently require management to use judgment to value the estimate and conversely, where the inherent risk of the estimate is determined to be not low due to the use of judgment, estimation uncertainty must be present. We are of the view that further clarification of these factors is required in proposed ISA 540 (Revised) or that consideration should be given to combining these factors into a single concept.		
Q4.85. GTI	Where estimation uncertainty is determined to be the primary inherent risk of the estimate, ED 540 paragraph 19(b) requires that if the auditor concludes that estimation uncertainty has not been appropriately addressed, then the auditor must develop an independent estimate, to the extent possible, to evaluate management's point estimate. We are concerned that not only will this blur the responsibilities of management and of the auditor for the development of the estimate, without further guidance regarding the circumstances in which it would or would not be possible to develop an independent estimate, this requirement could be inappropriate and a fatal flaw in the standard. (Also, see our comment in Q4a above in respect of use of the term "address.")	E. Add AM to 19(b) regarding the circumstances in which it would or would not be possible to develop an independent estimate.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.86. KPMG	... we believe the standard should prescribe the relevant approaches to auditing all accounting estimates (i.e. the approaches identified in ED-540.15(a)), and clearly articulate that, as the assessed risk of material misstatement increases, it is important the auditor responds by identifying and sufficiently understanding the risks related to different components (i.e. data, assumptions and methods/models) of each estimate that impact the assessed risk of material misstatement, and designing an audit approach that appropriately responds to these risks. The application guidance could then expand upon the challenges of auditing the more sophisticated estimates, where it may be more difficult/judgmental to determine whether the auditor has obtained sufficient appropriate audit evidence.	A. Add guidance on complex estimates.	
Q4.87. KPMG	For the reasons outlined in 3(c) of this letter, we believe ED-540 has insufficient requirements and application guidance related to the three audit procedures that would usually be performed to respond to the identified and assessed risks of material misstatement, as described in ED-540.15(a). Our preference would be to remove the requirements to obtain sufficient appropriate audit evidence for these matters, especially given it is unclear how they can be met if the auditor is not testing management's process for making the estimate.		O. Add guidance (to support new requirements) on procedures that would usually be performed.

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.88. KPMG	We believe ED-540 should instead focus on requirements that require a response that appropriately responds to the specific risks of material misstatement, and adding additional application guidance on the three audit procedures referred to in ED- 540.15(a) that can be used to test estimates.		[Covered by Q4.87. KPMG]
Q4.89. PKF	Yes [sufficient guidance re 17-19], however refer to response in 5 regarding the auditor's point estimate or range.	C. Support for AM to paras 17-19 (But see also Q5)	
Q4.90. PwC	While application material discusses broadly how an auditor might go about developing their own estimate or range we think it is more helpful to indicate the expected work effort if, for example, the auditor uses management's method or model, data or assumptions. Similarly, setting a clear benchmark in the requirements that, if the auditor uses their own method, model, data or assumptions, they need to have a reasonable basis for those selections would also be appropriate. See proposed paragraph 19B of appendix 2. Note, some further restructuring of the ordering of paragraphs 19 (estimation uncertainty), 20 (auditor ranges) and our suggested additional requirement regarding point estimates or ranges is likely necessary.	E. Add more guidance about work effort on developing own point estimate/range.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.91. RSM	... It could be more explicitly stated, or possibly guidance added, that auditors can assess some assertions as “low” despite the complexity, judgment and estimation uncertainty affecting the accounting estimate.	P. Add guidance/clarity about assessing inherent risk	
Q4.92. RSM	<p>Yes, we believe that the guidance [re 17-19] is generally comprehensive, however, we consider that there may be an issue with the apparent binary nature of paragraphs 17-19, particularly in the light of paragraph 15(b)’s statement “when applicable”.</p> <p>For example, an estimate might be assessed as “not-low” due to complexity but not judgment or estimation uncertainty. However, one or both of judgment or uncertainty might be present but not as the overriding consideration in assessing the risk of material misstatement. The current drafting implies that the impact of these other two factors could be ignored in the design of further audit procedures.</p> <p>This seems illogical and may not be the Board’s intention. We recommend that paragraph A97 be amended to make the Board’s intention on this point clear.</p>	<p>C. General support for AM to paras 17-19.</p> <p>E. Add guidance/clarify in A97 intention as to how factors that are not the overriding consideration in assessing risk are to be addressed.</p>	
Q4.93. ACAG	ACAG believes there is sufficient guidance provided [re 17-19].	C. Support for AM to paras 17-19.	
Q4.94. AGA	The guidance is sufficient. [re 17-19]	C. Support for AM to paras 17-19.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.95. AGC	<p>We notice the proposed requirements for the risk assessment and response make specific reference to identifying and assessing significant risks; however, the related requirements and application materials do not specifically address significant risk. Instead, the proposed standard introduces new risk classifications of 'low' and 'not low'.</p> <p>For instance, paragraph 10 provides the ISA 315 requirement to determine if any identified risks are significant. Also, paragraph 15 provides the ISA 330 requirement to design audit procedures which respond to risk, including significant risks; however, related requirements (par. 15 through 20) and application materials provide two tiers of procedures for application when inherent risk is assessed as either 'low' or 'not low' with no reference to significant risk.</p>	N. AM needed for 'significant risks'	
Q4.96. AGC	<p>While we have inferred the meaning of 'not low' to be a range of risks which includes significant risks as well as risks assessed between low and significant; for greater clarity, we recommend the Board provide guidance to introduce the new risk classifications of low and not low and clarify how the requirements to identify and respond to significant risks are addressed by the proposed requirements of ED-540. For instance; consider adding wording such as the following to paragraph 15.</p>	P and N. Guidance needed on the 'low' and 'not low' risk classifications and 'significant risk'.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	An inherent risk assessment of 'not low' encompasses a range of possible risk assessments which include significant risks as well as risks assessed between low and significant.		
Q4.97. AGC	Yes, there is sufficient guidance provided by paragraphs 17 to 19 to support compliance with the requirements of paragraph 15b). We reiterate the need to clarify the meaning of the 'not low' risk assessment.	C. Support for AM to paras 17-19. E. Need to clarify meaning of 'not-low'.	
Q4.98. AGNZ	Application guidance paragraph A69 provides examples of estimates that auditors should be capable of assessing. Paragraph A69 also suggests that other estimates (such as expected credit losses or insurance contract liabilities) would be likely to require auditors to apply specialised skills or knowledge from outside the audit team's collective "experience", implying that auditors are unlikely to be able to audit such figures themselves.	I. Questioning A69.	
Q4.99. AGNZ	We believe that many auditors would have the skills and knowledge required in order to obtain sufficient appropriate audit evidence relating to many accounting estimates that fall between the two extremes cited in paragraph A69. In particular, there are a number of professional service firms that carry out a range of services. It would seem unusual for them to be able to carry out valuation services on a consultancy basis, but at	I. Questioning A69.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	the same time, not be considered capable of assessing similar estimates in an audit capacity.		
Q4.100. CIPFA	CIPFA considers that the guidance [re 17-19] is useful and, taken together with a proper understanding of the requirements of audit evidence, will help them to achieve the objectives of the audit.	C. Support for AM to paras 17-19.	
Q4.101. GAO	... the IAASB should consider grouping the guidance by procedures that evaluate evidence related to methods, data, and assumptions rather than organizing the proposed standard by the factors of complexity, judgment, and estimation uncertainty. As noted above, we have found that approach to be useful in our audits of complex estimates in the federal government and believe that it may be easier to apply than the approach described in the proposed standard. Also, we believe organizing the guidance in this way will support a scalable application of the standard.		O. Rework the guidance to cover methods, data, and assumptions
Q4.102. INTOSAI	In general, we find the requirements to be relevant to the public sector but please also consider the following circumstance that is unique to the public sector which could be mentioned in the application material.  Political influence within the public sector is always a relevant factor to consider when gaining an	E. Add guidance for public sector on political influence.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	understanding of the entity and assessing risks. It is highly relevant for public sector auditors to consider political motives that could influence the management bias and ultimately the accounting estimates.		
Q4.103. INTOSAI	... most risk procedures and related activities set out in paragraph 10 of the proposed standard and its supporting application guidance, commencing at paragraph 10(e), would more appropriately be considered in the context of a specific accounting estimate or class of transactions.		I. AM to 10(e) onwards) should be specific to an individual estimate or class of transactions.
Q4.104. INTOSAI	We recommend the same risk assessment procedures and related activities commencing at paragraph 10(e) be directed at accounting estimates that are significant to the financial statements and related disclosures. Additional guidance may be necessary to assist auditors in determining the significance of an accounting estimate relative to the financial statements and related disclosures.	E. More AM to 10(e) to assist auditors in determining the significance of an accounting estimate	
Q4.105. INTOSAI	The guidance [re 17-19] appears to be sufficient.	C. Support for AM to paras 17-19.	
Q4.106. PAS	Yes, there is sufficient guidance in relation to the proposed objectives-based requirements [17-19]	C. Support for AM to paras 17-19.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.107. ACCA-CAANZ	As well as reconsidering the low/'not low' distinction, we believe the application guidance needs to be improved. Currently the paragraphs in A72 and A73 include examples of estimates that may be low or not low. Rather than take this approach, which again, may cause difficulty with regulators expecting the identified risks to always be low or not low, it would be more useful to have a matrix examples which show how a given estimate may be low or 'not low' (or may move along a scale of risk) depending on factors that impact the estimation uncertainty, judgement, or complexity of that estimate for different entities. This kind of matrix would assist auditors in understanding when it would be appropriate to categorise estimates as low risk. If the application guidance retains lists of examples, it would be useful for there to be more equal numbers of examples of low and not low risks to avoid giving the impression that low risk estimates are uncommon.	P. More/clearer AM for 'low' and 'not low'	
Q4.108. ACCA-CAANZ	... Because the auditor is assessing the 'risk of material misstatement' (in accordance with ISA 315), we feel that more guidance on materiality would be useful.	E. More guidance on materiality	
Q4.109. ACCA-CAANZ	It would be more useful for the auditor to consider estimation uncertainty, to have scalable requirements in relation to how the auditor addresses degrees of estimation uncertainty in their work effort. Application guidance could provide detail on how the factors of	E. More guidance on estimation uncertainty	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	complexity, judgement and management bias may impact estimation uncertainty and what matters may need to be addressed in relation to each of those factors in the auditor's procedures. In particular, greater emphasis on 'judgement' and an explicit linking between judgement and management bias would be useful. ...		
Q4.110. AE	... The explanation in paragraph A126 of the application material and the work effort that it may entail for the auditor – could be read as if ISA 540 encourages the auditor to carry out work that falls under the responsibility of management.		I. A126 encourages the auditor to carry out work that falls under the responsibility of management.
Q4.111. AE	There is also sufficient application material to help the user of the standard apply the requirements [about identification and assessment of risks] effectively.	C. Support for the AM to para 13.	
Q4.112. AE	In our view, on the basis of the revised definition, the final standard needs to include more material than currently proposed in the context of determining significant risk to support the auditor's compliance with paragraph 27 of ISA 315. Currently, paragraph 27 of ISA 315 is referred to, but not explained beyond consideration of complexity, need for management judgement, and estimation uncertainty amongst possible other factors. Paragraph A76 of ED-540 merely refers to ISA 315 in this context.	N. More guidance in A76 on significant risk	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.113. AE	The measurement of items that are subject to measurement uncertainty involves the use of one or more assumptions. The “relative precision” of an assumption is of primary relevance in determining whether an accounting estimate is, in the auditor’s judgement, a significant risk. We agree that this should be specified along the lines proposed in paragraph 13 (c) and explained in paragraph A35, since when a reasonable variation in the data or assumption would materially affect the measurement of the accounting estimate, the measurement of this accounting estimate would constitute a significant risk.	C. Support for A35.	
Q4.114. AE	We consider the definition of the term ‘significant data’, which is mentioned several times in paragraphs 17-18, to be important in the understanding of the respective requirements. We would therefore suggest moving the explanation included in paragraph A35 to the requirements’ section ‘Definitions’ in page 31 of ED-540 - or otherwise have it properly signposted.	G. Clarify meaning of significant data by moving explanation in A35 to a definition.	
Q4.115. AICPA	We believe that paragraphs 26(d) and 28 of the Explanatory Memorandum provide very helpful guidance on the proposed work effort to audit accounting estimates. We recommend that these paragraphs be incorporated into ED 540 as application material,	E. Move paras 26(d) and 28 from the Explanatory Memorandum to AM.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	especially if the IAASB decides to retain the approach in paragraphs 17–19 of ED 540.		
Q4.116. AICPA	We are concerned that the guidance in ED 540 targeted to smaller entities may not be appropriate. The size of an entity or an audit firm should not be a determining factor in assessing the risks of material misstatement of an accounting estimate. Instead, the work effort should be driven by the risks of material misstatement related to the specific components of the estimate. Because accounting estimates with higher risks exist even in smaller entities, the current approach and related guidance for audits of smaller entities may lead some to believe that the expected level of work may be lower for a smaller entity even though the risks of material misstatement may be higher.		I. Questioning guidance for small entities
Q4.117. AICPA	We believe paragraph 16 and the related application material in ED 540 are insufficient to assist auditors in recognizing the circumstances in which, in today's environment (for all industries, not only those cited in paragraph A98 of ED 540), sufficient appropriate evidence cannot be obtained for the elements of the estimate (for example, the model(s) or the data source(s)) without testing controls.	K. More guidance (and requirements) for internal control	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.118. AICPA	There is little guidance on how to actually test management's process; that is, what procedures may be performed (for example, how the auditor may comply with paragraph 17(c)) of ED 540. The guidance on the testing strategies from extant ISA 540 is necessary and likely should be expanded.	E. More guidance on testing management's process -restore from extant	
Q4.119. AICPA	There is little guidance on what is considered significant data and assumptions. The term "significant data" may not be intuitive as data is usually a fixed set of information against which assumptions are applied. We are unclear as to how the auditor would determine what data would not be tested and how significance would be assessed. Because it might be confusing to use the term "significant data" in conjunction with significant assumptions, we suggest using "key factors" (see paragraph .09 of extant AS 2501, Auditing Accounting Estimates, of the PCAOB standards).	G. Clarify significant data and assumptions	
Q4.120. AICPA	With regard to paragraph 19 of ED 540, because estimation uncertainty is inherent in all accounting estimates and, in fact, is in the definition of an accounting estimate, it should not be considered as a separate risk factor. Further, we believe that paragraph 19 of ED 540 provides no incremental work to what is required by paragraph 17–18 of ED 540, and the guidance with		H. Guidance with respect to estimation uncertainty creates unnecessary duplication.

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	respect to estimation uncertainty creates unnecessary duplication.		
Q4.121. AICPA	... We further recommend linking paragraph A125 of ED 540 to the circumstances in paragraphs 19(b) of ED 540.	F. Link A125 to 19(b)	
Q4.122. ANAN	The Association believes that the ED has provided sufficient guidance in relation to objectives based on requirements in paragraphs 17-19 of the ED. The application and explanatory materials especially 101-134 will help to guide the professional accountants to deal with complexity related to management use of complex model and the nature of judgment required to be used by the professional accountants in assessing management's judgment and the nature of sufficient appropriate audit evidence that must be obtained by the professional accountants when dealing with estimation uncertainty.	C. Support for AM to paras 17-19[ <i>but see also next comment</i> ]	
Q4.123. ANAN	The Association, however, observed that the explanatory material and application guidance are not arranged in such a way that will make reference easy for the professional accountants that may wish to read and understand the requirements of the standard.	E. Rearrange the guidance for more clarity	
Q4.124. CAQ	... Based on a possible interpretation of paragraphs 15-20 and associated application guidance in paragraph A97, the auditor would still need to perform audit procedures to address the matters in paragraphs 17-19.		I. Questioning A97

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	This would not seem necessary given the subsequent information.		
Q4.125. CAQ	... The Board could consider adding guidance or clarifying that auditors may judge it necessary to perform some or all the procedures under paragraphs 15-20 even if the inherent risk is assessed as low, as it is unclear as currently drafted.	P. Add guidance/clarity re performing 15-20 where inherent risk is 'low'	
Q4.126. CAQ	Paragraphs A72 and A73 of the application material in the Exposure provide examples of estimates the auditor may determine to be a "low" or "not low" RoMM. We are concerned that these examples could result in auditors having a bias that examples provided in paragraph A72 will automatically be "low" risk, and the examples in A73 will automatically be "not low" risks. The Exposure should be updated to make it clearer that the examples in A72 represent some, but not all examples of estimates that are "low" risk, and that other factors could result in an auditor determining that an estimate that is typically "low" risk, could be "not low" or even significant. Paragraph A73 should be updated to note that the examples provided represent possible indicators of "not low" risk, but are not automatic indicators of "not low" risk.	P. More/clearer AM for 'low' and 'not low'	
Q4.127. CPAA	The matters listed in paragraphs 17-19 would be better placed in application material and the three factors of	L. Convert paras 17-19 to AM	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	complexity, judgment and estimation uncertainty not presented as mutually exclusive, but acknowledged to be overlapping and interrelated considerations.		
Q4.128. CPAA	As noted above, we suggest that matters listed in the sub-paragraphs as requirements in these paragraphs would be better placed in application material. We have not identified any additional guidance which should be added, but the application material could be reviewed to see where it could be rationalised as there is some overlap in the application material provided for each of the three factors.	[See Q4.127. above]	J. Review AM and rationalise it
Q4.129. EFAA	... We challenge the IAASB to reconsider whether some of the requirements are more appropriate as application guidance. ...	L. Convert some requirements to AM.	
Q4.130. IBRACON	No [re sufficiency of guidance for 17-19]...  We recommend that the understandability and practical application of the ISA can be enhanced by: ....  Creating a more explicit requirement and related guidance that addresses expectations of the auditor when developing their own point estimate or range. For example, if the auditor uses management's method or model, data or assumptions.	E. More guidance (and requirements) when developing own estimate/range	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.131. IBR-IRE	<p>Due to the criticality of the design of a risk-responsive audit approach, we encourage greater clarity and guidance in this area. In particular:</p> <p>— A better linkage between the concept of significant risk in paragraph 13 and the concept of inherent risk is paragraph 15</p> <p>— A clarification that when inherent risk is low that at least of of the procedures described in paragraph 15 (a) must be considered;</p>	<p>N. More guidance/clarity about significant risk</p> <p>E. More guidance/clarity about performing procedures in 15(a)</p>	
Q4.132. ICAEW	... IAASB might consider giving additional emphasis or prominence to the wording in paragraph A123 referring to management's estimate being 'appropriately representative of the range of reasonably possible outcomes'.	E. Clarify A123	
Q4.133. ICAEW	We agree that analysis of the three factors is useful in identifying and assessing the risk, but it is less useful in determining the appropriate response. IAASB should recognise that the three-factor approach to not low IR estimates works as a thought process, but require those three factors to drive the response. Instead, IAASB should	L. Address the three factors in AM (rather than requirements)	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	include them, or the detailed aspects thereof, in the application material. To the extent that IAASB is making genuine efforts to move towards outcomes-based objectives and requirements in standard-setting generally, this should work.		
Q4.134. ICAG	Yes, we believe that there are sufficient guidance in relation to the proposed objectives-based requirements raised in the ED 540.	C. Support for AM to paras 17-19	
Q4.135. ICAP	We understand that the risk assessment model envisaged under ED 540 differs from the extant ISA 315, and ED 540 requires further clarification on the risk model and its relation to the existing requirements of ISA 315 (Revised), 'Identifying and assessing the risks of Material Misstatement through Understanding the entity and its Environment'. Further, the related terms as defined in the explanatory guidance may be included in the definition section.	G. Move definitional AM to the definitions	
Q4.136. ICAP	We believe that paragraphs 17-19 of the ED 540 and related application material require further clarification regarding the nature and extent of procedures to be performed, particularly in relation to the scalability and proportionality of the requirements.	E. More clarity in AM to paras 17-19	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q4.137. ICAS	We have not identified any additional guidance that should be included in the proposed objectives-based requirements in paragraphs 17-19 of ED-540.	C. Support for AM to paras 17-19.	
Q4.138. ICAS	we would suggest that the term 'significant data', referred to in paragraphs 17-18, should be defined and included within the definitions section on page 31 of ED-540.	G. Clarify and define 'significant data'	
Q4.139. ICAZ	Yes. [there is sufficient guidance re 17-19]	C. Support for AM to paras 17-19.	
Q4.140. ICPAK	Yes there is [sufficient guidance re 17-19]	C. Support for AM to paras 17-19.	
Q4.141. KICPA	In relation with the requirements in paragraphs 17-19 that are focused on objectives, such requirements would be better to be provided in a form of more detailed and clarified guidance form, taking into account their significance and difficulties auditors face in practice. With concerns that voluminous guidance makes ISAs difficult and complex, we suggest a form of non-authoritative guidance, just like IAPN, instead.		L. Convert paras 17-19 to guidance in an IAPN
Q4.142. SAICA	The application material in paragraphs A71 to A78 provides important guidance in relation to the assessment of RoMM in the context of accounting estimates; and specifically draws attention to low inherent risk and not-low inherent risk. It is helpful that	C. Support for A71-A78.	



**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	specific focus is placed on significant risks (paragraphs A76 to A77), and on other relevant factors in addition to the three “main” factors (paragraph A78).		
Q4.143. SAICA	we are aware of suggestions that the ED does not provide sufficient further guidance on the interrelationship of the factors and how the auditor’s response to the risks are affected when more than one factor is applicable, including that the procedures relating to the objective-based requirements for each factor might overlap. The IAASB may have to consider this matter further (it would be interesting to see whether this is identified as an issue in the context of all of the comments that the IAASB receives).	E. Possible more guidance/clarity re the interrelationships of the factors.	
Q4.144. SAICA	Most of the survey respondents and SAICA agree that there is sufficient guidance in relation to the proposed objectives- based requirements in ED-ISA 540.17 – 19, including the related application material.  The field testing respondents commented that more applicable guidance has been provided in the proposed revised standard. Annexure 1 to this comment letter provides a summary of responses from field testing (refer to field testing question (g)).	C. Support for AM to paras 17-19.	
Q4.145. SAICA	SAICA wishes to also note that the proposed objectives-based approach calls for considerable professional	E. Include professional judgment in the “key concepts” section.	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	judgement to be exercised by the auditor, whilst at the same time allowing the auditor to scale and custom-design procedures relevant to the entity's accounting estimates that are responsive to the assessed risks of material misstatement. The IAASB could consider to also include professional judgement as part of the "Key concepts" section at the beginning of the standard (i.e. part of the "catch all" paragraphs upfront).		
Q4.146. SAICA	SAICA agrees with the requirement in paragraph 16 to test the operating effectiveness of internal controls, if the auditor intends to rely on controls relating to accounting estimates, or if substantive procedures alone cannot provide sufficient appropriate audit evidence. The application material in paragraphs A98 to A100 provides appropriate additional guidance. Greater emphasis on performing tests of controls will however require clarity in ISA 315 (Revised) and ISA 330 on the understanding required and how this affects the nature, timing and extent of substantive procedures and the combination of tests of controls and substantive procedures.	C. Support for A98-A100. {But see also next comment]	
Q4.147. SAICA	SAICA wishes to draw the IAASB's attention to a possible consistency / interpretation risk that we have encountered in South Africa around the design and performance of tests of controls in response to RoMM at the assertion level which may also have implications for the application of ED-ISA 540.16 and A98 – A100. The	[Issue of clarification for ISA 330, rather than 540?]	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	difference in interpretation relates to whether ISA 330.A4(a) provides for a scenario where the auditor is able to perform only tests of controls to obtain sufficient appropriate audit evidence in response to RoMM at the assertion level (for individual assertions) without also performing substantive procedures on the assertions concerned.		
Q4.148. <b>SMPC</b>	The IAASB should consider whether some of the material [in 17-19] is more appropriate for application guidance rather than in the requirements.	L. Convert paras <b>17-19</b> to AM	
Q4.149. <b>SMPC</b>	The use of the term “significant data” in requirement 17 (a) would benefit from clarification or perhaps a link to other relevant application material (e.g. A35, A39 – A42). The Board could consider whether it should refer to whether management has also considered different scenarios that may occur, the impact on the significant data and therefore on the final accounting estimate. The IAASB should also consider whether it intends that there is a difference between the requirement to consider if significant data is reliable (para. 17 (a)) and its integrity (para. 17 (d)). Practitioners may have difficulty distinguishing between the two.	G. Clarify ‘significant data’.	
Q4.150. <b>SMPC</b>	Paragraphs 18 and A111 use the words “intent” and “ability”, but it is not easy to understand what these	G. Clarify meaning of ‘intent’ and ‘ability’ in <b>A111</b> .	

**ED 540 - Responses referring to application material/guidance – Q4 - When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

- (a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- (b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?
- (c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

Q4	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	mean. We encourage the Board to consider adding additional explanation of these terms		
Q4.151. CYGNUS ATRATUS	We have not identified caveats in the guidance provided. [re 17-19]	C. Support for AM to paras 17-19.	
Q4.152. NDEG	We support many of the concepts and related guidance that have been incorporated, which we believe will promote a more granular consideration of the nature and extent of what can go wrong, to inform the auditor's risk assessment at the assertion level and design appropriate responses. ...	C. General support for the guidance (and concepts)	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.1. BCBS	We recommend that the standard be expanded to provide guidance on the auditor’s responsibility for evaluating the point in the range chosen by management. Specifically, paragraph 19(b) (and its related Application Material) should be expanded to include an auditor’s assessment of where management’s point estimate falls within the range, whether there is a tendency to choose a point at either end of the range (eg the low end) and the determination of the appropriateness of management’s choices within the accounting framework. While we understand that some financial reporting frameworks call for neutrality and do not specify whether any one point in the range is preferable to another, this additional guidance would be helpful for the auditor’s evaluation of indicators of potential management bias in paragraph 22(a). As it relates to the auditor’s overall evaluation of audit procedures performed that is required in paragraphs 22–23, which the Explanatory Memorandum refers to as the “stand-back” test, it would be particularly helpful to include the auditor’s evaluation of the point in the range chosen by management, including the auditor’s evaluation of whether there is a pattern of management selecting similar points within ranges for material estimates in the financial statements.	5A and 5C. Guidance on point in the range selected by management – and include this in the stand back (paras. 22-23)	
Q5.2. BCBS	We also question whether the last sentence in paragraph A145 is the most appropriate: “when the audit evidence supports a range that does not encompass management’s point estimate, the misstatement is the difference between management’s point estimate and the nearest point of the auditor’s range”. If the auditor were to develop an independent estimate (which may not always be possible), we believe that the misstatement is more appropriately determined using the auditor’s point estimate or best	5B. A145 – question appropriateness of the last sentence (misstatement is difference between management’s point estimate and nearest point of auditor’s range)	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	estimate within the range, and comparing this with management’s point estimate.		
Q5.3. <a href="#">BCBS</a>	As well, in relation to paragraph A114, we believe that, in cases where management has not reasonably considered alternative methods, sources of data and assumptions, auditors should be required to consider the need to obtain written representations from management on the reasonableness of its chosen methods, data sources and assumptions. Mere discussions with management (as stated in paragraph A114) by way of gathering audit evidence in our view would not be sufficient to address the risks of material misstatement. We view this suggestion to obtain written representation from management as consistent with the spirit of paragraph 25. However, paragraph 25 and paragraph A153 in the Application Material could be expanded as indicated below in our discussion on internal control.	<a href="#">5C and 5O. A114</a> - Elevate to a requirement in para 25 with expanded guidance in <a href="#">A153</a> that when management has not reasonably considered EU, auditor should consider need to obtain written representations	
Q5.4. <a href="#">EBA</a>	However, we understand that in the context of the audit of ECL, which may include complex models and several assumptions, auditors may not always be able to develop an independent point estimate or range. Therefore, the ED could include more guidance on the circumstances (and criteria) under which the auditors should develop their own point estimate or range besides the case mentioned in paragraph 19(b). In addition, the ED could include an additional step (as referred to in paragraph A126) of requiring auditors to first request management to consider alternative assumptions or to provide additional disclosures related to the estimation uncertainty before auditors develop their own point estimates or ranges in order to assess the reasonableness of management’s point	<a href="#">5C and 5E</a> . More guidance on circumstances and criteria for developing auditor’s PEorR ( <a href="#">A129</a> ) – additional requirement first to request management to consider alternative assumptions or disclosures (as per <a href="#">A126</a> ) – also, if auditor can’t develop own PEorR, SPA not enough and auditor will need to focus on testing relevant controls	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	estimate. In the cases when an auditor’s own point estimate or range cannot be developed, the application guidance could clarify that the auditor should focus among others on testing the relevant internal controls and the reasonableness of management’s point estimate and that substantive procedures alone will not be sufficient.		
Q5.5. <a href="#">EBA</a>	... We would welcome the inclusion of more guidance in the ED in paragraphs A128- A130 on the circumstances in which the development of an auditor’s point estimate may be more appropriate than the development of a range and whether different objectives may be met by each of these.	<a href="#">5E</a> . More guidance on circumstances for developing auditor’s PEorR ( <a href="#">A128-A130</a> )	
Q5.6. <a href="#">EBA</a>	Paragraph 20(b) of the ED requires the auditor to include reasonable amounts in the range of estimates. However, in the case of ECL, due to the nature of these estimates which include several assumptions and therefore can vary considerably, we expect that there will be significant estimation uncertainty. Therefore, we believe that the inclusion of reasonable amounts only in the range would not be sufficient to assist the auditor in developing an estimation range to effectively support the audit procedures. As such, we would welcome that such audit procedure is linked to the considerations of the indicators of management bias in paragraphs A148-150 and the auditor’s disclosures in paragraphs (such as those in paragraphs A125 and A138).	<a href="#">5D</a> . Guidance that when EU is high, link 20(b) (only reasonable amounts in auditor’s R) to <a href="#">A148-A150</a> (indicators of management bias) and <a href="#">A125-A138</a> (disclosures)	
Q5.7. <a href="#">EBA</a>	Paragraph A123 includes guidance on those matters relevant in obtaining sufficient appropriate audit evidence about the reasonableness of management’s point estimate and related disclosures. However, we believe that the current wording of the paragraph could be strengthened (for	<a href="#">5C</a> . Elevate <a href="#">A123</a> guidance to requirement	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	example replacing ‘may’ with ‘are’ and moving it to the main text of the standard), as indeed, when applicable, these matters will always be relevant to the audit procedures performed.		
Q5.8. ESMA	... ESMA encourages the IAASB to clarify further the risk model in the ED and its relation to the existing requirements of ISA 315.	5F. Clarify further the risk model in 540 and its relation to 315	
Q5.9. ESMA	While ESMA agrees with the matters of which the auditor needs to obtain audit evidence (paragraphs 17- 20 of the ED), we are of the view that they do not give an answer to the question what is sufficient appropriate audit evidence regarding cases with complexity, judgement or estimation uncertainty. We are of the view that specific audit procedures or specific practical guidance should be added to the application guidance.	5G. Additional practical guidance or procedures needed (to clarify what is SAAE when complexity, judgment or EU are high (scalability))	
Q5.10. ESMA	ESMA is of the view that the application guidance in paragraph A126 should be turned into requirement in paragraph 19(b). ...	5C. Elevate A126 to requirement	
Q5.11. ESMA	ESMA is of the view that evaluation of estimation uncertainty needs to be specified by (i) further clarifying paragraph A129 of the ED with regards to circumstances when it is appropriate to develop an auditor’s point estimate and when a range and (ii) providing additional application guidance how the criteria in paragraph 20 of the ED could be met.	5E. Additional guidance on when appropriate to develop auditor’s PEorR and on how to apply the criteria in para. 20	
Q5.12. ESMA	ESMA appreciates the reference to the link between certain aspects of the audit of accounting estimates related to estimation uncertainty and the key audit matters in	5C. Support for A125 and wants it to be elevated to a requirement	



**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	paragraph A125 of the ED. However, ESMA strongly believes that the interaction between the audit of accounting estimates (and notably the auditor work on assessment of its elements of estimation uncertainty, management judgement and complexity) and key audit matters should be further developed in the requirements section of ISA540 (Revised).		
Q5.13. ESMA	ESMA welcomes the requirements of paragraph 21 on the audit of disclosures related to accounting estimates. ESMA highly appreciates the requirements of paragraph 21(a) and strongly supports the requirement that the auditor should evaluate whether the management has provided all the disclosures that not only meet the objective of the disclosure requirements but also ensure fair presentation of the financial statements as a whole. However, ESMA is of the view that this requirement could be better explained (e.g. by building on the description provided in paragraph A120 that seems to be more clear and explicit as the requirements) and further exemplified in the application guidance.	5C. Elevate some of A120 to requirement para 21	
Q5.14. IAIS	Yes, we generally believe the approach prescribed within para. 20 and the related application material in para. A128–A134 will be more effective for evaluating whether management’s point estimate is reasonable or misstated. However, we encourage the IAASB to develop future examples and other support tools to address special audit considerations relating to the application of ISA 540 para. 19 b) and para. 20, in particular for audits of financial institutions.	5A. Supportive in principle A128-A134 re guidance on evaluating management’s point estimate but want more guidance for audits of financial institutions on this	
Q5.15. IAIS	... We suggest further application material on ranges be brought into the requirements part of ISA, making it clearer that the auditor should be satisfied that the point estimate	5C. Elevate to the requirements the point in A123 that management’s point estimate should	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	selected by management is in an appropriate place within a range. For example, the wording in A123, that management’s estimate “is appropriately representative of the range of reasonably possible outcomes” is important, but appearing at the 6th bullet point, is rather buried. The lead in wording to A123 should be stronger, for example as the second sentence already includes “as applicable” at the end, the earlier “may be relevant” should become “are” or “will be” relevant. The application material at A116-A118 is useful and should be retained.	be “appropriately representative of the range of reasonably possible outcomes”	
Q5.16. <a href="#">IAIS</a>	We also believe it would be useful to highlight within para. A131 that when the auditor uses management’s model to develop a point estimate or range, the auditor first needs to obtain sufficient and appropriate evidence that the internal controls associated with the model are operating effectively.	5D. <a href="#">A131</a> – if auditor uses management’s model to develop a point estimate or range auditor needs SAAE re internal controls related to the model	
Q5.17. <a href="#">IOSCO</a>	While paragraph A2 describes the concept of ‘reasonable’, it is subjective and general in nature. The Board should provide more guidance and key considerations to facilitate practical application of the term ‘reasonable.’	5H. <a href="#">A2</a> – concept of ‘reasonable’ is subjective and general – more guidance and key considerations are needed	
Q5.18. <a href="#">IOSCO</a>	... it is important for auditors to be aware as to when it is appropriate for them to rely on their own development of a range to evaluate the reasonableness of management’s point estimate, and in which situations auditors need to undertake supplemental audit procedures. An example of the latter case may be a situation in which an auditor’s range for an accounting estimate may be multiples of materiality for the financial statements taken as a whole, as described in A134. It would be helpful for the Board to provide further guidance in this area in a final standard.	5E and 5L. <a href="#">A134</a> – more guidance needed on when appropriate to develop their own estimate (e.g. address situation where auditor’s range is greater than materiality)	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.19. IOSCO	<p>The guidance currently in paragraphs A128 to A134 is not sufficient. Therefore, the Board should provide clearer guidance on how to:</p> <ul style="list-style-type: none"> <li>• Set a reasonable range or threshold in testing management’s accounting estimate;</li> <li>• Evaluate the variance between auditor’s point estimate or range and management’s accounting estimate and highlight the importance of investigating the underlying root causes of such variance (particularly when there is contradictory evidence from other audit procedures); and</li> <li>• Identify and evaluate errors. This includes extrapolation of errors to the relevant population and evaluating the risk of incorrect acceptance due to root causes of variances not being identified. ISA 530 and ISA 520 do not provide requirements or guidance to address these matters.</li> </ul>	<p>5E and 5I. A128-A134 not sufficient guidance – more needed on setting a reasonable auditor’s range, evaluating variances from auditor’s range (including root cause) and identifying and evaluating errors (including extrapolation)</p>	
Q5.20. IOSCO	<p>Paragraph A131 allows the auditor to develop a point estimate or a range for only part of the accounting estimate. The Board should consider providing further guidance and examples of this approach. The Board should also highlight that if the auditor develops a range in testing the underlying data or assumptions of the accounting estimate, there should be an assessment of variances and reasonableness of the accounting estimate in monetary terms. For example, the impact on the financial report may be difficult to assess from differences in non-monetary inputs such as interest rates, percentages or ratios. Assessing the impact on the financial report in monetary terms enables the auditor to better understand the impact of differences in estimates. While paragraph A131 of the ED provides examples of ways</p>	<p>5E. More guidance on when auditor develops a point estimate or range for part of the AE, including that the effect of variations in components of the AE which are tested in this way should be evaluated in terms of their impact on the measurement outcome</p>	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	to develop a point estimate or range, it does not discuss identifying differences or evaluating errors.		
Q5.21. IRBA	The requirement in paragraph 20 and related application material in ED-540 appropriately establishes how the auditor’s range should be developed. ...	5J. Supports approach in A128 to A134	
Q5.22. UKFRC	... Paragraphs A18 to A20 of ISA 200 give a fuller indication of why professional scepticism is important and it would be helpful to reflect at least some of this in ISA 540. For example, paragraph 5 could be amended along the following lines: ....	5K. Elevate A18-A20 of ISA 200 to paragraph 5 of 540	
Q5.23. UKFRC	Paragraph 19(b) requires that “When, based on the audit evidence obtained, in the auditor’s judgment, management has not appropriately understood and addressed the estimation uncertainty, the auditor shall, to the extent possible, develop an auditor’s point estimate or range ...”. As stated in the main letter, we recommend that before doing that the auditor should discuss with management why management has not appropriately understood and addressed estimation uncertainty and, if appropriate, ask management to consider alternative assumptions or to provide additional disclosure relating to the estimation uncertainty. This, in part, would elevate paragraph A126 to a requirement.	5C. Elevate part of A126 (discuss with management why they have not appropriately understood and addressed EU and ask them to consider alternative assumptions or to provide additional disclosures	
Q5.24. UKFRC	Paragraph A134 refers to circumstances where the auditor’s range for an accounting estimate may be multiples of materiality for the financial statements as a whole. This should really only arise where the inherent uncertainty is itself multiples of materiality and it would be more helpful to consider this initially from that perspective. We agree with	5L. A134 – auditor’s range multiple of materiality – need for more guidance – cross reference to A133, A144 and A145 not enough – consider whether the inherent uncertainty is itself multiples of materiality and relevant requirements in the AFRF. Supportive of focus	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	the guidance in A134 that, in these circumstances, evaluation of the reasonableness of disclosures is important. However, we believe further guidance would be helpful. The nature of the uncertainty and the requirements of the applicable financial reporting framework will be relevant to considering the disclosures and also implications for the auditor’s report. For example, the guidance in paragraph A90 about where estimation uncertainty is so high that a reasonable accounting estimate cannot be made is relevant. There can also be business sectors, such as insurance, where very high estimation uncertainty is the norm and there are specific requirements in the applicable financial reporting frameworks in relation to that. The cross reference to paragraphs A133, A144 and A145 are not particularly helpful.	on disclosures but see also relevance of <a href="#">A90</a> (reasonable estimate not possible)	
Q5.25. UKFRC	... the other key change is that the ED no longer includes the extant guidance that “ordinarily, a range that has been narrowed [from all possible measurement outcomes] to be equal to or less than performance materiality is adequate for the purposes of evaluating the reasonableness of management’s point estimate.” This is an important change that we support and helps address concerns that the points at the ends of the range may not be reasonable because they do not appropriately meet the measurement objectives. This is why the revised approach, which requires all amounts to be “reasonable” as now described in A2 and A3, is importantly different from extant ISA 540. For the purpose of measuring any misstatement, it is important that the range is as narrow as it can be based on the audit evidence, not taken to be ‘reasonable’ so long as it is no wider than performance materiality. We believe it is important that this point is reflected in the application	<a href="#">5J</a> . Strongly supports the deletion of A94 of extant 540 (ordinarily an auditor’s range is adequate if reduced to no more than performance materiality)	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	material in the revised standard as it would help highlight the change from the extant position.		
Q5.26. UKFRC	It is also important that what is meant by “supported by the audit evidence” is sufficiently clear. In particular, it should be clear that it includes all evidence that is reasonably available to the auditor, whether or not obtained or taken into account by management.	5G. Guidance to clarify what is meant by “supported by the audit evidence” in para. 20(a) and includes all evidence reasonably available to the auditor, whether or not taken into account by management	
Q5.27. AUASB	The term ‘reasonable’ is used throughout the ED and paragraph 20 requires the auditor’s range to be reasonable when used to evaluate management’s point estimate. While paragraph A2 describes the concept of ‘reasonable’, it is subjective and general in nature. The AUASB believes it would be beneficial for the IAASB to provide more guidance and key considerations to facilitate practical application of the term ‘reasonable’.	5H. A2 – concept of ‘reasonable’ is subjective and general – more guidance and key considerations are needed	
Q5.28. AUASB	... The AUASB considers that the standard is inappropriately tending to shift the onus from preparer to auditor. Where the auditor develops their own point estimate or range to evaluate reasonableness of an estimate, as a replacement for management’s point estimate or range, as indicated by paragraphs 19(b) and A127, this may limit the exercise of professional scepticism and judgement and may be detrimental to audit quality. Where the auditor develops its own point estimate or range as an independent check to management’s outcome, this is considered appropriate. The AUASB considers that this distinction should be clearly articulated in the standard.		5E. New guidance needed to explain that developing auditor’s PEorR when management has not appropriately addressed EU (as replacement for management’s PE) this may limit exercise of PS and reduce audit quality compared with doing so as an independent check on management PE.
Q5.29. AUASB	ED 540 needs clarification that in circumstances where sufficient and appropriate audit evidence cannot be	5E and 5G. Clarify that when SAAE not possible, a modification may be needed to the auditor’s	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	obtained from management, then the auditor will assess the impact of this and it may result in a modification to the opinion in the auditor’s report based on a scope limitation. Additionally, the AUASB considers that further guidance is needed to clarify the expectations of when an auditor’s range should be developed and how that range is utilised in evaluating management’s point estimate. The AUASB does not consider that the requirement in paragraph 23 with the associated guidance will result in a more consistent determination of a misstatement.	report and provide guidance on when appropriate for auditor to develop own PEorR	
Q5.30. AUASB	... the application material could be expanded to address the types of considerations auditors use in the establishment of setting ranges and thresholds, and mechanisms through which an auditor documents and reconsiders those thresholds in the conduct of the audit. Where necessary, the implications of these, when outside parameters, should be linked to the possible audit report outcomes.	5E. Guidance needed on considerations that are appropriate when establishing an auditor’s PEorR	
Q5.31. AUASB	Paragraph A128 assumes that where an auditor develops a point estimate or uses an auditor’s range, the auditor is performing a substantive analytical procedure for which ISA 520 is the reference point for further audit requirements. The AUASB identifies that many practitioners do not consider their development of a point estimate or range to be a substantive analytical procedure but rather a hybrid of test of detail and substantive analytical procedure, which the exposure draft does not address. (For example, when testing derivatives a sample would be tested through independently determining a point estimate or reasonable range). Furthermore, the AUASB suggests that a ‘hierarchy’ could be built into the	5E. A128 – many practitioners consider development of auditor’s PEorR to be hybrid of substantive analytical procedure and test of detail and guidance could establish hierarchy of when the use of a PEorR is most appropriate (AM to para.15?)	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	standard to guide auditors on when the use of a point estimate or range is most appropriate.		
Q5.32. AUASB	The AUASB considers that the determination of materiality is still open to interpretation and has not been sufficiently considered within the ED, particularly for those misstatements that represent judgemental differences rather than factual misstatements. The AUASB considers that a greater volume of principle based examples would be helpful in the application material, or within an Appendix, on the use of the point estimate or range and how misstatements are calculated. Visual examples of how the range applies in paragraph A145 could be beneficial.	5M. A145 – more guidance on materiality for judgmental rather than factual misstatements – could be in AM or an appendix and could include visual examples	
Q5.33. CAASB	<p>... we do not agree with the wording in paragraph A128 that developing an auditor’s point estimate or range is a substantive analytical procedure. We believe the reference to the requirements and guidance in ISA 520, Analytical Procedures, introduces unnecessary confusion. For example, the inquiries of management about differences from expected values required by paragraph 7(a) in ISA 520 seem inconsistent with the premise in paragraph 19(b) that management has not appropriately understood and addressed the estimation uncertainty.</p> <p>We do not feel it is necessary to specify in a standard which type of procedure would be used in developing a point estimate or range. We note that ED-540 does not include guidance on the type of procedures to use in testing how management made the accounting estimate, and so we question why there would be guidance on the type of procedures to use in developing a point estimate or range. We recommend that paragraph A128 be removed.</p>		5B. Disagree that developing an auditor’s PE or R is a substantive analytical procedure – reference to 520 introduces unnecessary confusion e.g 7(a) of 520 seems inconsistent with premise in 19(b) that management has not appropriately understood and addressed EU and it is not necessary to specify the type of procedure to be used



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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.34. CNCC-CSOEC	We also support the idea that all the point estimates in the management range are acceptable. Thereby, we agree that in cases where the auditor's point estimates is outside the management range, the misstatement is the difference between the auditor's point estimate and the closest point of the management range and not more.	5J. Supports A145	
Q5.35. CNCC-CSOEC	We also support the idea that the concept of reasonable range (i.e. a range that contains only reasonable estimates) and materiality are not linked. Thereby, we recommend to move the first sentence of paragraph A134 to the requirements section, i.e. "In certain circumstances, the auditor's range for an accounting estimate may be multiples of materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax Income) and this measure is relatively small in relation to assets or other balance sheet measures".	5J and 5C. Support concept that reasonable range and materiality not linked (A134) but suggest elevate first sentence of A134 to requirement	
Q5.36. HKICPA	We consider the requirement in paragraph 20 and related application material provide sufficient guidance for developing a point estimate or a range.	5J. Supportive of approach in A128-A134	
Q5.37. HKICPA	In paragraph A94 of extant ISA 540, there is guidance for auditors to refer to 'performance materiality' when evaluating the reasonableness of management's point estimate. We consider it useful to include similar guidance in the revised standard.	5D. Suggest reinstate similar guidance to extant A94, which refers to performance materiality in evaluating reasonableness of point estimate	
Q5.38. HKICPA	We also recommend that the IAASB explicitly states, in the last bullet point of paragraph A131, that any reference made to other comparable conditions, transactions, events or	5D. A131 – state that any reference to comparable conditions, transactions, events, markets etc should be based on observable info not hearsay	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	markets should be based on 'observable references' (i.e. not hear-say).		
Q5.39. HKICPA	As previously noted in comments to Q3 above, we would recommend IAASB to clarify if the guidance in relation to developing the auditor's range would also be applicable in the situation when the inherent risk is low and is required to develop a point estimate or range in accordance with paragraph 15(a)(iii).	5L. Clarify if guidance re developing auditor's range (A128-A134) applies when IR is low and para. 15(a)(iii) applies	
Q5.40. IDW	We believe that the requirement in paragraph 20 is superior to that in extant ISA 540. ... We also support the application material as written for this particular issue.	5J. Supports approach in A128-A134	
Q5.41. JICPA	Paragraphs A97 and A128 explain that developing an auditor's point estimate or an auditor's range is substantive analytical procedures. We understand that there is a certain similarity between “developing an auditor's point estimate or an auditor's range” and “developing an expectation in substantive analytical procedures”, since the auditor themselves develops a certain amount (or range) in both cases. However, we consider that developing an auditor's point estimate or an auditor's range is very different in character from other general substantive analytical procedures. Therefore, we do not support this categorization.		5B. A97 and A128 – developing auditor's range as a substantive analytical procedure – though similar in some respects different in character and do not support this characterization
Q5.42. JICPA	... regarding the auditor's point estimate or range, the difference between management's point estimate and auditor's point estimate or the nearest point of the auditor's range is automatically treated as a misstatement as stated in paragraph A145. If the auditor's point estimate or range is		5B. A145 – confusing to have auditor's range or point estimate treated as substantive analytical procedure (520) – should 520 or A134 apply in determining the misstatement?

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	categorized as substantive analytical procedures, it will lead confusion as to whether the auditor is required to determine the amount of misstatement in accordance with ISA 520 or ISA 540.		
Q5.43. NBA	<p>If the auditor defines a range he should only accept values that are supported by the audit evidence and are reasonable according to the auditor. We have problems understanding how the range of the auditor’s estimate should be determined. For instance when the auditor concludes that for an actuarial calculation an interest rate should be used between 3 and 4%, are all values in between than acceptable? We recommend giving clear guidance and examples (see response Q5).</p> <p>With the new approach the range is already “narrowed down” because there needs to be audit evidence and amounts in the range have to be “reasonable” (which is not defined). Furthermore, at this stage, materiality does not have to be taken into account (two-step approach). This seems realistic. However, we wonder whether it is clear how the auditor should develop a point estimate or range. We recommend to give clear guidance how to determine whether the point estimate or range is reasonable by providing concrete examples. For example, if an actuarial calculation is used and the range of the expected life of men varies from 82 till 85 years. Are all outcomes between 82 and 85 appropriate or not?</p>	5E. Clearer guidance is needed on evaluating reasonableness when an auditor’s range is used, with examples	
Q5.44. NZAuASB	... From a practical perspective, we see very little difference in the proposals in ED-540 compared with extant ISA 540. ED-540 requires the auditor to only include in the range amounts that are supported by audit evidence and that the		5N. A128-A134 – sees very little difference in ED 540 v extant

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	auditor has evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework. Extant ISA 540 requires the auditor to narrow the range by eliminating those outcomes from the extremities that are unlikely to occur and continuing to narrow the range, based on audit evidence, until the auditor concludes that all outcomes within the range are considered reasonable.		
Q5.45. NZAuASB	Paragraph A134 indicates that an auditor’s range for an accounting estimate may be multiples of materiality and that in such circumstances, the auditor’s evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly more important. The NZAuASB considers that additional application material to address the auditor’s considerations when this is the case would be helpful.	5L. A134 – more guidance on when auditor’s range a multiple of materiality	
Q5.46. BDO	We agree with proposals regarding how the auditor’s range should be established. The existing requirement to narrow the auditor’s range to performance materiality would not be appropriate for some estimates, such as pension liabilities and ECL for financial institutions. The variability in these types of estimates are likely to exceed performance materiality. We also support the need for additional disclosure when there is significant estimation uncertainty.	5J. Supports the approach in A128-A134	
Q5.47. BDO	We propose adding guidance relating to developing an auditor’s range that include only amounts that ‘are supported by the audit evidence’. This wording is somewhat ambiguous and application and other explanatory material would be helpful in developing the appropriate amounts to be included in the range. Also, for this section to be properly	5G. More guidance needed on what is meant by including only amounts supported by the audit evidence in a range developed by the auditor – clarify that audit evidence may include forward looking information	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	applied, we propose the guidance clarify that audit evidence may include forward-looking information used in making an estimate. In addition, we suggest including some clarification regarding how developing a point estimate or range would be considered a substantive analytical procedure.		
Q5.48. BDO	Paragraph A131 lists various methods that can be used to develop an auditor’s point estimate or a range. The second and fourth examples in the list appear very similar as both involve the development of alternative assumptions. We suggest clarifying the difference between these two examples or combining these if the differences are minor.	5D. Clarify difference between 2 <sup>nd</sup> and 4 <sup>th</sup> bullets in A131	
Q5.49. BDO	Where there is sufficient audit evidence to support a point estimate, it would be helpful if ED-540 acknowledged that it would be preferred/recommended for auditors to consider the point estimate prior to considering a range. We suggest reordering the application paragraphs to facilitate this to address point estimates first and then guidance on a range. It is important that where there is evidence to support a point estimate, that this is pursued and that management’s point estimate is not assessed against an auditor’s range only.	5E. Guidance (A129) should clarify preference to use point estimate v range developed by auditor if audit evidence supports a point estimate	
Q5.50. BDO	We also propose providing additional guidance on auditing management’s assumptions, including some practical examples.	5E. Guidance on auditing management’s assumptions if auditor uses them in developing an auditor’s point estimate or range	
Q5.51. DTT	DTTL concurs with the approach taken by the IAASB in the development of the range as set forth in paragraph 20 of ED-540. ... DTTL also believes that additional guidance would be helpful to clarify as it relates to paragraph 20(a) of ED-540 that discrete audit evidence is not needed for every point	5J and 5E. Supportive of the approach in A128-A134 but additional guidance could be given that discrete audit evidence not needed for	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	within the range, but rather that the totality of audit evidence needs to be sufficient and appropriate to support the conclusion about the reasonableness of the auditor’s range overall.	each point in range (totality of evidence needs to be sufficient)	
Q5.52. EYG	Yes, we believe that the requirement in paragraph 20 and related application material in paragraphs A128-A134 have been enhanced and improved from extant ISA 540. ...	5J. Supportive in principle A128-A134	
Q5.53. EYG	Paragraph A132 explains that it is important that the auditor obtain a sufficient understanding of the data, assumptions and method used by management in making the accounting estimate because this information is relevant to the auditor’s development of an appropriate point estimate or range. We would agree, and for accounting estimates for which the inherent risk is “not low”, we believe requiring the auditor to perform procedures to test how management made the estimate (as we expressed in our response to Q4 (c)) would achieve this objective.	5D and 5J. Supports A132 but additional requirement suggested on testing how management made the AE	
Q5.54. EYG	As we express in our response to Q1, we strongly support the explanation in paragraph A134 that auditor ranges may possibly be multiples of materiality. And, we agree that the auditor’s evaluation of the reasonableness of the disclosures about estimation uncertainty becomes “important”. However, instead of referring to the “importance” of such evaluation, we believe it would be more useful to explain the basis for the importance. Such guidance may include, for example, explaining that, in executing paragraph 23 as it relates to evaluating the reasonableness of disclosures, the auditor may give specific consideration to whether sufficient information about the extent of estimation uncertainty has been disclosed, and whether the qualitative disclosures, in	5D and 5J. A134 – Strongly support his paragraph but more guidance to explain the basis for the increased importance of the evaluation of management’s point estimate – specific suggestions for additional guidance provided	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	particular, appropriately assist users’ understanding about the nature and extent of estimation uncertainty. If the disclosures are insufficient, the auditor may determine that misstatements exist (refer to our response to Q6 for our further views on enhancements to the application material to specifically address evaluating qualitative disclosures).		
Q5.55. GTI	We are of the view that the requirement in paragraph 20 (and related application material) of ED 540 is a step in the right direction in helping the auditor determine how to establish a range. However, we are concerned about the absence of guidance that will assist the auditor in determining when it would be appropriate to develop an auditor’s range. We are of the view that for many complex estimates, the auditor may never be in a position to develop an auditor’s estimate. For example, unless the company was only a small financial institution, it would be unlikely that the auditor would be able to develop a credit loss reserve in accordance with IFRS 9. We would recommend the development of additional guidance on the practicalities of developing ranges and the interaction with materiality levels, including circumstances where the developed range is multiples of materiality. Further, we are of the view that it would be useful to incorporate, into an appendix to ED 540, examples of how to calculate misstatements in situations where, in order to test the estimate, the auditor has developed a range that does not encompass management’s point estimate.	5E and 5I. A128-A134 a step in the right direction re developing a range but: guidance is needed on when it would be appropriate to develop a range (in many cases not considered appropriate) and interaction with materiality level; and also need examples of calculating misstatements when auditor’s range does not encompass management’s point estimate (A145)	
Q5.56. GTI	We further note that paragraph A128 of ED 540 indicates that the auditor, by developing an auditor’s point estimate or range, is designing and performing an analytical		5B. Auditor’s range as substantive analytical procedure (520) – difficult to apply as: (a) objective of 520.5(c) to produce a sufficiently

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	procedure. It references ISA 520, which provides requirements and guidance regarding the use of substantive analytical procedures. However, ISA 520, paragraph 5(c) requires that an expectation be developed (in this case of an estimate) that is sufficiently precise to identify a misstatement, whilst the objective in ED 540 paragraph 19(b) is to evaluate reasonability. Further, paragraph 7 of ISA 520 requires that where fluctuations are identified, inquiries are made of management along with the performance of further audit procedures as considered necessary. It is not clear how this could be applied in the context of ED 540, especially in circumstances where management has not appropriately understood or addressed estimation uncertainty.		precise expectation whilst objective of 540 to evaluate reasonableness; and 520.7 requires inquiries of management where fluctuations arise and further audit procedures and not clear how to apply if management has not appropriately understood or addressed EU
Q5.57. KPMG	We agree with the approach taken by paragraph 20 to setting the attributes of the auditor’s range. We also support the explicit recognition in paragraph A134 that there are circumstances where the auditor’s range may be multiples of materiality, as we consider that to be a common issue in practice (e.g. impairment provision for loans using the expected credit loss model, insurance liabilities).	5J. Support guidance on range = multiple of materiality in A134 – a common issue e.g. in ECL	
Q5.58. KPMG	[19(b)] may imply that it is the auditor’s responsibility to compensate for management’s ineffectiveness. As we do not believe that this was the IAASB’s intention, we would encourage the IAASB to emphasise, beyond what is currently mentioned in paragraph A126, that it is management’s responsibility to appropriately understand and address estimation uncertainty (an exercise that is required anyway for disclosure purposes in many financial reporting	5O. A126 – emphasize that it is management’s responsibility to appropriately understand and address EU and auditor should focus on management’s response	



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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	frameworks) and the auditor should focus on management’s response.		
Q5.59. KPMG	We also believe that, while the standard recognises that in certain circumstances it may not be possible for the auditor to come up with an independent point estimate or range (e.g. expected credit-loss provision), it does not provide guidance on the auditor’s response in those circumstances (i.e. when management has not appropriately addressed estimation uncertainty and the auditor is unable to develop an independent estimate).	50. More guidance on auditor’s response if management has not appropriately addressed EU and auditor unable to develop an auditor’s point estimate or range	
Q5.60. KPMG	we believe that the standard should further describe the implications of management not properly addressing estimation uncertainty. For example, such circumstances may have implications on communicating control deficiencies and on the auditor’s assessment of the sufficiency and appropriateness of audit evidence obtained.	50. More guidance on implications if management has not appropriately addressed EU – communicating control deficiencies and implications for assessment of whether SAAE obtained	
Q5.61. KPMG	<p>Paragraph A128 states that the auditor’s range is considered a substantive analytical procedure. While there may be valid reasons to make such a statement, we believe that it may have some significant unintended consequences. For example: .... [perceived inconsistencies with ISA 520]</p> <p>We further note that it is our understanding that in some jurisdictions a range determined by performing a substantive analytical procedure cannot exceed two times performance materiality. This may cause further confusion regarding the interaction between paragraphs ED-540.A128 and ED-540.A134;</p> <p>When the auditor chooses to develop an independent estimate to audit management’s estimate (or a component</p>	5B. A128 – substantive analytical procedure re auditor’s point estimate or range – valid reasons but potentially unintended consequences such as inconsistency between 520 and 540 and potential implication of ISA 330.21 that substantive analytical procedure alone is not enough for a significant risk and additional tests of detail required – also in some jurisdictions, range for SA cannot exceed 2 times performance materiality	

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	thereof) which includes a significant risk, the requirement in ISA 330.21 is that the auditor perform additional audit procedures. This implicitly suggests that developing an independent estimate provides less persuasive audit evidence than the other two approaches to auditing estimates, which we do not believe would necessarily be the case. This may have an unintended consequence that it discourages the auditor from performing this audit procedure when an estimate includes a significant risk.		
Q5.62. KPMG	<p>We believe that ED-540 lacks guidance in relation to the work effort that the auditor should perform when developing a point estimate or a range.</p> <p>Coupled with our comment in (b) above, we would suggest that the IAASB remove the reference to substantive analytical procedure and instead incorporate guidance on the extent of work expected from the auditor when developing an independent estimate. We suggest that the IAASB consider the guidance in paragraphs 21-24 of the PCAOB’s proposed auditing standard on accounting estimates in this context.</p>		5B. Remove reference to 520 substantive analytical procedure and provide more guidance on work effort in developing auditor’s developing an auditor’s PE or R
Q5.63. KPMG	We would suggest clarifying that if the auditor chooses to develop a point estimate or a range (although not required to do so), then the requirements of paragraph 20 and its related application materials are applicable in the same way.	5E. Guidance needed to effect that para. 20 should apply equally if auditor develops a range	
Q5.64. KPMG	ED-540.A133 refers to a scenario where management has developed a range and selected assumptions which lie on the same end of the range – a situation that may indicate management bias. It is not clear why this paragraph is included within the application materials which refer to an	5P. A133 – relocate example or clarify relevance of example to developing an auditor’s range	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	auditor’s range. We would suggest either clarifying the example or relocating it to the application material that discusses management bias.		
Q5.65. PKF	Yes, subject to our comments below, the requirement in paragraph 20 and the related application material in paragraph A128 – A134 do establish how the auditors range should be developed.	5J. Yes supportive in principle of approach to auditor’s range (A128-A134)	
Q5.66. PKF	... in Section 3 of the Explanatory Memorandum, concern is mentioned over extant ISA 540 which could result in an auditor’s range that is inappropriately wide. We do not believe that this concern has been fully addressed. We suggest that the application material could more explicitly address the quantum of the range (from low to high) compared to e.g. materiality when developing an auditor’s range.	5E. More guidance on auditor’s range and when it would be inappropriately wide	
Q5.67. PwC	... With respect to [20] part (a), it is unclear as to the specific intent of the phrase “are supported by the audit evidence”. There is uncertainty as to whether the reasonableness of the range was to be assessed based on audit evidence obtained from the procedures performed in, for example, testing management’s assumptions, data etc., or if this requirement is implying that there is a need to obtain some further additional level of evidence. We believe the intent was the former and that this could be clarified simply in the application material. This would also hold true for when the auditor used their own assumptions or data, and a link back to both our proposed amended requirements (see question 4) in that regard would be useful.	5D. Clarify that evidence referred to in 20(a) is the evidence about data assumptions [under paras. 17-19] etc not some additional level	

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Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.68. PwC	While we find much of the application material to be useful reminders, in particular the focus on bias and the reasonableness of the disclosures, we do not anticipate any real change in practice in respect of the boundaries of the ranges that are developed. Assuming an appropriate work effort has been performed on the relevant inputs/elements of an accounting estimate (method, data, assumptions), the inherent estimation uncertainty associated with certain accounting estimates is such the range of reasonably possible outcomes is very broad and may exceed materiality. The auditor cannot “audit away” inherent estimation uncertainty. We therefore support paragraph A134 and the importance of transparent disclosures about estimation uncertainty in the financial statements.	5J. Supportive, particularly focus on management bias and transparent disclosures support - A134	
Q5.69. PwC	... A qualified or disclaimer of opinion may be appropriate because the auditor may simply not be able to obtain sufficient appropriate audit evidence about the estimate. We believe it would be useful to mention this in the application material, for example against paragraph 19 (b).	5O. Guidance needed if auditor cannot develop a PEorR and management has not appropriately addressed EU – e.g. qualified or disclaimer of opinion may be required	
Q5.70. PwC	Finally, we were surprised by the assertion in paragraph A128 that when an auditor develops a point estimate or uses an auditor’s range, the auditor is designing and performing a substantive analytical procedure. ....		5B. A128 - notes surprise that developing an auditor’s PEorR is a substantive analytical procedure (520) – reasoning not given
Q5.71. AGC	Yes, the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establishes how the auditor’s range should be developed.	5J. Supports approach in A128-A134	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.72. CIPFA	CIPFA considers that the ED-540 material is easier to understand and provides better support for evaluating whether management’s point estimate is reasonable or misstated.	5J. Supports approach in A128-A134	
Q5.73. INTOSAI	We found the requirements and guidance concerning the auditor’s range acceptable.	5J. Supports approach in A128-A134	
Q5.74. PAS	Yes, the requirement in paragraph 20 (and related application material in paragraphs A128-A134) appropriately establishes how the auditor’s range should be developed. We believe this approach will be more effective in evaluating whether management’s point estimate is reasonable or misstated.  Reference to these related application material paragraphs should be added to paragraph 20.	5J. Supportive of approach in A128- A134 and these AM paras should be cross referenced from para 20.	
Q5.75. ACCA-CAANZ	The focus of the standard should be on how the auditor assesses management’s estimate or range rather than developing their own range, as this will not always be possible. It is appropriate to include guidance on how the auditor needs to address the possibility of management bias when addressing the reasonableness of management’s estimates to address concerns that auditors do not sufficiently challenge management.	5D. More guidance needed that the focus should be on auditor assessing management’s PE rather than developing auditor’s PEorR and on how auditor addresses possibility of management bias	
Q5.76. ACCA-CAANZ	... As highlighted in ACCA’s report Banishing Bias, auditors need to be aware of the risk of confirmation bias when undertaking the audit. This requirement to reduce the auditor’s own cognitive bias is usually encapsulated within the concept ‘professional scepticism’. It would be helpful to clarify within ED-540 the extent to which the auditor should	5D. Additional language (challenge) and extent to which evidence supporting management’s PE should be challenged	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	challenge evidence which supports management’s assertions and seek additional evidence, and the extent to which they can validate that management’s assertions are reasonable. At the same time, it should be recognised that management will generally view their own supporting documentation as being more persuasive than any contradictory evidence supplied by the auditor, for the same reason.		
Q5.77. ACCA-CAANZ	The requirements and application material in ED-540 do not focus on assisting the auditor to appropriately narrow their range. We encourage the IAASB to focus on how to direct the auditor’s work effort in relation to assessing the range/estimate used by management so that the auditor appropriately addresses concerns such as the potential for management bias, confirmation bias and other factors that give rise to the current concerns raised in relation to auditor’s ranges. There needs to be guidance on when an auditor may use a point estimate versus a range. In addition, more information and guidance is necessary in relation to how materiality will impact these determinations. There also needs to be clear guidance on how the auditor documents this process, including documenting the justification for any revisions to the range or estimate. Consideration also needs to be given to the role that data analytics and other new tools may be used. As discussed in our overall comments above, it would be useful to clarify the definition of inherent risk and estimation uncertainty to those constrained by the financial reporting framework to allow the auditor to focus on the risks that they can address.	5D. More guidance on how auditor’s work effort should be directed wrt assessing management’s PE, to address concerns such as potential management bias	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.78. <a href="#">AE</a>	... it is noted in paragraph A134 of the application material that, in certain circumstances, the auditor’s range for an accounting estimate may be multiples of materiality for the financial statements as a whole; in our opinion, this is important for all stakeholders to understand and, as such, the IAASB should give more prominence to this statement. We draw your attention to our response to question 5 that expands upon this point.	5L. <a href="#">A134</a> – give more prominence to auditor’s range may be multiples of materiality – important for all stakeholders to understand	
Q5.79. <a href="#">AE</a>	in some respects, this response to the assessed risks of material misstatements can be seen as disproportionately high from the auditor’s perspective. We refer to the wording of 19 (b) of the ISA 540. The explanation in paragraph A126 of the application material and the work effort that it may entail for the auditor – it can be read as if ISA 540 encourages the auditor to carry out the work that should rightly be undertaken by management. For instance, paragraph A126 states that the auditor may consider requesting management to consider alternative assumptions relating to estimation uncertainty. We would suggest that the IAASB take a firmer stance by requiring the auditor to first request such information from management and only if management is unable to provide this information then the auditor should proceed with developing a point of estimated or a range. In the case of the latter, the IAASB could also consider whether there should be an impact on the auditor’s opinion in such a case. The same suggestion applies for paragraph 19 in ISA 540 where the IAASB only refers to the auditor obtaining sufficient appropriate audit evidence.	5C. Suggest elevating <a href="#">A126</a> to a requirement	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.80. AE	The difference between the second and fourth bullets of paragraph A131 is also unclear. The former uses management’s model and selects alternative assumptions or data sources to develop a point estimate or range, the latter uses alternative assumptions to those used by management. If the former involves independent inputs to management’s model to assess the actual estimate, this can and should be clearer.	5D. A131 – difference between 2 <sup>nd</sup> and 4 <sup>th</sup> bullets of A131 unclear	
Q5.81. AE	Furthermore, it is noted in paragraph A134 of the application material that, in certain circumstances, the auditor’s range for an accounting estimate may be multiples of materiality for the financial statements as a whole and that this measure might be relatively small in relation to assets or other balance sheet measures. The IAASB should give more prominence to this statement and to the fact that a reasonable auditor’s range may often be larger than materiality.	5L. A134 – give more prominence to auditor’s range may be multiples of materiality – important for all stakeholders to understand	
Q5.82. AICPA	No. Paragraph 33 of the Explanatory Memorandum explains that “the IAASB discussed concerns that this approach to “narrowing the range,” coupled with a lack of explanation about what would constitute a “reasonable outcome,” could result in an auditor’s range that is inappropriately wide and agreed not to retain this approach. While we do not advocate overly prescriptive requirements or application material, we do not believe that the proposed requirement in paragraph 20 and the related application material in paragraphs A128–A134 of ED 540 will achieve the objectives and may not result in fewer “overly broad” ranges.		5B. A128-A134 will not achieve the objectives and may not result in fewer “overly broad” ranges



**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.83. AICPA	<p>Paragraph A128 of ED 540 states that whether using an audit point estimate or developing an auditor’s range, the auditor is performing substantive analytical procedures, and ISA 520, Analytical Procedures, addresses the use the auditor’s use of substantive analytical procedures. We acknowledge that ISA 330 describes substantive audit procedures as tests of detail, substantive analytical procedures, or some combination thereof, and do agree that the requirements in ISA 520 are useful with regard to developing expectations and testing the reliability of data. However, we believe this paragraph in ED 540 will have unintended consequences for several reasons, including:</p> <p>Paragraph A6 of ISA 520 states that substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.</p> <p>Paragraph A15 of ED 540 states that matters relevant to the auditor’s evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include the accuracy with which the expected results of substantive analytical procedures can be predicted. We note that often an auditor or an auditor’s specialist may develop a range to evaluate the reasonableness of an amount or assumption to assist in providing evidence related to an estimate where the auditor is testing management’s process. The development of the range in this circumstance is not intended to be sufficiently precise to identify a misstatement but, rather, is a data point in the auditor’s overall conclusion.</p> <p>Most significantly, paragraph A16 of ED [520] states that the determination of the amount of difference from the</p>	<p>5B. A128 – Agree that 520 requirements on developing expectations and testing reliability of data are useful but believe the reference to ISA 520 will have unintended consequences for a number of specified reasons including practical difficulties in applying A16 of 520 to certain AEs</p>	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	expectation that can be accepted without further investigation is influenced by materiality and the consistency with the desired level of assurance, taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated. An unintended consequence is that paragraph A128 of ED 540 can be interpreted to suggest materiality is the expected limit when performing such substantive analytical procedures in testing accounting estimates. This is not operational for certain estimates.		
Q5.84. <b>ANAN</b>	ANAN considers the requirements in paragraph 20 (and related application material in paragraphs A126-A134) to have appropriately established guidance on when and how the auditor's range should be developed. The paragraphs, taking together, have considered different circumstances and varying factors that will guide the auditors in considering when and how to develop a range or a point estimate to enable him obtain sufficient understanding of the data, assumptions and methods used by management in making accounting estimates and assess whether the estimates are reasonable or misstated. This approach will be more effective than the approach of narrowing the range; as provided in extant ISA 540. This is because the new requirement in paragraph 20 of the ED and paragraphs A128-A134 are more expansive in their consideration of varying circumstances in which the professional accountant may find himself. The Association believes that these requirements will provide an opportunity for the auditor to exercise his personal judgment to treat different cases on their merit.	<b>5J.</b> Supports the approach in <b>A126-A134</b>	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.85. CAI	We consider the addition of further application material to clarify what is meant by ‘supported by the audit evidence’ would be beneficial. This expanded guidance should include, at a minimum, reference to ISA 500 Audit Evidence.	5G. More guidance to explain what is meant by ‘supported by the audit evidence’ A128-A134	
Q5.86. CAQ	... We further recommend linking paragraph A125 of the Exposure to the circumstances in paragraph 19(b).	5P. Link A125 to para. 19(b)	
Q5.87. CPAA	We are supportive of the approach in ED-540 of developing a point estimate or range in place of narrowing the range as in the extant standard. However, we suggest greater guidance is required regarding when a point estimate or range is appropriate.	5E. Supportive of approach in A128-134 but more guidance on when developing an auditor’s PEorR is appropriate	
Q5.88. IBRACON	We also support the explicit recognition in paragraph A134 that there are circumstances where the auditor’s range may be multiples of materiality. In some cases, the estimation uncertainty associated with certain accounting estimates is such that the range of reasonably possible outcomes is very broad and may exceed materiality. However, the auditor cannot simply audit away in those circumstances. He should also focus on audit of inputs of the accounting estimates (i.e. considering the relevance and the reliability of the information, data or assumptions to be used as audit evidence in accordance with ISA 500). Additionally, we emphasize the importance of transparent disclosure about the estimation uncertainty in the explanatory notes of financial statements.	5J. Supportive, particularly focus on management bias and transparent disclosures – A134	
Q5.89. IBRACON	With respect to item 20 (a), questions arose as to the specific intent of the phrase “are supported by the audit evidence”. There was uncertainty as to whether the	5G. More guidance on what is meant by “are supported by the audit evidence” and to clarify that discrete audit evidence not needed	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	reasonableness of the range was to be assessed based on audit evidence obtained from the procedures performed or if this requirement was implying that there was a need to obtain some further additional level of evidence. We propose adding guidance and explanatory material to clarify if discrete audit evidence will be needed.		
Q5.90. <a href="#">IBR-IRE</a>	In our view the requirement of paragraph 20 and its related application material will lead to a more effective approach than the current “narrowing the range” approach.	<a href="#">5J</a> . Supports <a href="#">A128-A134</a>	
Q5.91. <a href="#">IBR-IRE</a>	However, we are concerned by the suggestion of the IAASB that the auditor carries out the work that is the responsibility of management as included in paragraph 20 and A127. In our view, the standard should reinforce the essential role and responsibility of management in developing estimates and in demonstrating how they have addressed the estimation uncertainty. The auditor should only proceed with developing a point of estimate if and only if management is unable to provide such information. In addition, the guidance material should acknowledge the fact that in certain instances, the auditor might not be able to “compensate” for the absence of management’s analysis. In that case it would be useful to outline the impact on the audit report.		<a href="#">5B and 5O</a> . <a href="#">A127</a> – concerned auditor would be carrying out role of management. Auditor should only develop own PE or R if management unable to provide appropriate information and in some cases may not be able to do so, in which case impact on report should be highlighted
Q5.92. ICAEW	IAASB should more clearly address situations in which high levels of estimation uncertainty mean that the range of reasonable estimates may be many times materiality for the entity as a whole - such as for large technical provisions in small insurance companies, and property assets in property investment companies. Currently, there is a brief reference to ranges being multiples of materiality in A134. IAASB might	<a href="#">5L</a> . More guidance needed when high EU means range of reasonable estimates may be many times materiality – some suggestions for approach to determining materiality for financial statements as a whole in these circumstance	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	note that in such cases, the size of the provision or property assets should be included in determining materiality for the financial statements as a whole, with a lower level of materiality set for unrelated items. Similar considerations apply to non-bank lenders and life insurers.		
Q5.93. ICAEW	It is important in cases of high estimation uncertainty to focus on the factors of judgement and complexity. When auditors are genuinely dealing with a high level of true estimation uncertainty, whatever size it is, an estimate is not misstated if it is depicted properly using a representative point value that the framework requires. IAASB could make this clearer. It might also make it clearer, without losing framework-neutrality, that most frameworks refer to a representative figure in a range, rather than any number that could be at either end of the range, and that numbers are unlikely to be ‘representative’ at the outer ranges, particularly if all are equally probable. In cases such as these, the probability weighted estimate would be the mean and not the outer ranges. However, if the distribution were skewed a number further towards an outer range might be a better representation. IAASB might consider giving additional emphasis or prominence to the wording in A123 referring to management’s estimate being ‘appropriately representative of the range of reasonably possible outcomes’.	5I. A128 and A123 – Make clearer in guidance that AE not misstated if genuinely dealing with high level of true EU, whatever its size, if depicted properly using representative point value required by AFRF	
Q5.94. ICAEW	IAASB should also acknowledge more fully in application material the dissimilarity between estimation and judgemental differences vis-à-vis factual and known misstatements and the fact that it is not uncommon for one qualified and diligent valuer to arrive at a point estimate for a goodwill impairment or investment that is significantly	5D. Guidance should recognise that estimation and judgmental differences are dissimilar from factual misstatements	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	different to that of another. Application material should therefore suggest that auditors consider the usefulness, or otherwise, of ranges of best estimates and address how auditors should deal with estimates reflecting factual errors within a range of best estimates		
Q5.95. ICAEW	We are sympathetic to those respondents who question the legitimacy of asking auditors to address estimation uncertainty if management is unable or unwilling to do so because of the importance of maintaining auditor independence. The term ‘address’ may be deliberately broad but it may lead to inconsistencies in practice. For example, some may take the view that it is sufficient for management to simply measure and disclose estimation uncertainty – others may take the view that management should, where possible, reduce estimation uncertainty to a level below performance materiality.		5B and 5O. Questions whether it is legitimate to ask auditors to address EU if management is unwilling or unable to do so
Q5.96. ICAP	... We believe that further to the proposed amendments, additional guidance is required in relation to various practical aspects including circumstances under which an auditor’s range is developed, how an auditor’s range is utilized in evaluating management’s point estimate, the application of evaluation of point estimate with a range, and the interaction of the auditor’s range with the materiality determined by the practitioner.	5E. More guidance on specified matters relating to development of an auditor’s range	
Q5.97. ICAS	We believe that the requirement in paragraph 20, and the related application material in paragraphs A128 – A134, should provide greater clarity and consistency for the auditor in the development of a point estimate or use of an auditor’s range.	5E. More guidance needed on developing a range, in A128-A134	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.98. ISCA	It may be beneficial to reiterate in ED-540 that in the event the auditor assesses that management has not appropriately understood or addressed estimation uncertainty, the auditor must apply professional scepticism and maintain full independence and objectivity in developing a point estimate or a range to evaluate the reasonableness of management’s estimate uncertainty	50. Clarify that if EU not properly understood and addressed auditor must maintain PS and full objectivity and independence in developing point estimate or range	
Q5.99. ISCA	Additionally, ED-540 could also emphasise that in the event management does not have a robust internal controls process in making an accounting estimate, the auditor should consider the implications of the internal control deficiencies on other audit procedures and the audit as a whole.	5D. Guidance should emphasise that if management does not have robust internal control for estimates, auditor should consider broader implications of deficiencies for the audit	
Q5.100. NASBA	Paragraph [A128] of the ED prescribes that “whether the auditor develops a point estimate or uses an auditor’s range, the auditor is designing and performing a substantive analytical procedure.” The statement is confusing since the appropriate audit procedure could be also be designed as a test of details. It is also not clear if an auditor is expected to develop a range that is below the tolerable misstatement amount calculated as part of the materiality determination.	5B. A128 statement re 520 (substantive analytical procedure is confusing as procedure could be designed as a test of details	
Q5.101. SAICA	Most of the survey respondents agreed that the requirements in paragraph 20 and related application material in paragraphs A128 – A134 appropriately establish how the auditor’s range should be developed.	5J. Supportive of A128-A134	
Q5.102. SAICA	One survey respondent found it more difficult to determine a range that is specifically applicable to the estimate being	5E. Guidance and examples needed to determine an auditor’s range	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>audited and suggested that guidance and examples should be provided in this regard.</p> <p>This was supported by another survey respondent who suggested that the guidance should be expanded to include examples of possible plausible relationships between data that may typically be used to develop a point estimate or an auditor’s range for the more common accounting estimates, such as the examples given in paragraph A1.</p>		
Q5.103. SAICA	<p>SAICA agrees that additional guidance may be required. The application material clarifies that developing a point estimate or range is a substantive analytical procedure in terms of ISA 520. The requirements and guidance of the ED should therefore be aligned to the auditor’s considerations in ISA 520 (in particular in relation to the amount of difference of recorded amounts from expected values that is acceptable without further investigation). ISA 520.A16 includes guidance in determining whether the difference in the recorded amount and the auditor’s expected amount is acceptable, i.e. the difference that can be accepted is influenced by materiality and the desired level of assurance (risk).</p>	<p>5D and 5I. Additional guidance needed to align with ISA 520 considerations by reference to ISA 520.A16 in determining whether the difference from auditor’s expectation is acceptable</p>	
Q5.104. SAICA	<p>... Paragraph 20 read together with paragraphs A143 to A145 are interpreted to mean that all of the amounts included in the auditor’s range should be considered as being reasonable. Conversely, if management’s point estimate equals any of the amounts in the auditor’s range, the auditor’s conclusion will be that the accounting estimate concerned is reasonable (and not misstated). This is also the reason why the evaluation proposed in paragraph A145 would lead to an acceptable audit outcome. SAICA suggests</p>	<p>5I. Clarify further the concepts in A143-A145 re misstatements by reference to ranges, including some examples</p>	



**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	that the IAASB considers how these important concepts may be clarified further, including using examples to illustrate.		
Q5.105. SAICA	Furthermore, we suggest that paragraph 20 include references, or otherwise be linked to the application material in paragraphs A128 to A134, as well as A143 to A145.	5P. Link A128-A134 to Para. 20	
Q5.106. SMPC	We agree with the IAASB that the proposed approach is more appropriate than that of “narrowing the range” in extant ISA 540. However, more information and guidance is necessary in regards to the relation between materiality and how the auditors range should be developed. This would be particularly important for practitioners that do not have extensive practical experience.	5L. More guidance needed on relationship between materiality and range	
Q5.107. SMPC	It could be made clearer that an accounting estimate is reasonable and not misstated if it is disclosed properly using a representative point estimate that the framework requires.	5I. Clarify that AE is reasonable and not misstated if properly disclosed using a representative point estimate that the framework requires	
Q5.108. SMPC	In addition, paragraph 20 (a) states “are supported by the audit evidence”, which may cause some confusion as accounting estimates are based on future events, most of which are not supported by currently available evidence. Additional application guidance may be needed to make this clear.	5G. Clarify how ‘supported by the audit evidence’ applies when AE based on uncertain future events	
Q5.109. CYGNUS ATRATUS	The reference to ISA 520 could create an unclarity regarding the range that can be allowed. As 520.A16 refers to materiality and 540.A134 refers to the range being multiples of materiality in ‘certain circumstances’.		5B. Reference to ISA 520 – substantive analytical procedure – may create ambiguity as to range permitted – difference 520.A16 v 540.A134

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.110. <b>CYGNUS</b> <b>ATRATUS</b>	<p>We hold the position that when sufficient audit evidence is available to define a range that is lower than performance materiality, the standard is not applicable. We would suggest the following wording for A134.</p> <p>'Usually, the auditor’s range for an accounting estimate exceeds materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income) and this measure is relatively small in relation to assets or other balance sheet measures. The auditor’s evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly important as the range increases. Considerations such as those included in paragraphs A133, A144 and A145 may also be appropriate in these circumstances.'</p>	5D. Suggested amendment to para <b>A134</b> re increasing importance of disclosures as range increases	
Q5.111. <b>NDEG</b>	<p>... With respect to part (a), questions arose as to the specific intent of the phrase “are supported by the audit evidence”. There was uncertainty as to whether the reasonableness of the range was to be assessed based on audit evidence obtained from the procedures performed in, for example, testing management’s assumptions, data etc., or if this requirement was implying that there was a need to obtain some further additional level of evidence. We believe the intent was the former and that this could be clarified simply in the application material. This would also hold true for when the auditor used their own assumptions or data, and a link back to both our proposed amended requirements (see question 4) in that regard would be useful</p>	5D. Clarify that evidence referred to in 20(a) is the evidence about data assumptions [under <b>paras. 17-19</b> ] etc not some additional level	

**ED 540 – Responses referring to application material/guidance – Q5 – Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor’s range should be developed? Will this approach be more effective than the approach of “narrowing the range”, as in extant ISA 540, in evaluating whether management’s point estimate is reasonable or misstated?**

Q5	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q5.112. NDEG	While we find the application material to be useful reminders, in particular the focus on management bias and the reasonableness of the disclosures, we do not anticipate any real change in practice in respect of the boundaries of the ranges that are developed. Assuming an appropriate work effort has been performed on the relevant inputs/elements of an accounting estimate (method, data, assumptions), the inherent estimation uncertainty associated with certain accounting estimates is such that the range of reasonably possible outcomes is very broad. The auditor cannot “audit away” inherent estimation uncertainty. We therefore support paragraph A134 and the importance of transparent disclosures about estimation uncertainty in the financial statements.	5J and 5N. Supportive, particularly of focus on management bias and transparent disclosures – A134 – but do not anticipate real change in practice re boundaries of auditor’s PEorR	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q6.1 BCBS	The Committee further recommends that the final standard cross reference to ISA 450, Evaluation of Misstatements Identified during the Audit, paragraph A3, which contains application guidance on distinguishing misstatements for the purpose of the auditor’s evaluation, including misstatements arising from differences in facts, judgments and projections. In addition, the Application Material in ISA 540 paragraphs A142–A146 should be enhanced by referencing ISA 450 paragraphs 10–13, and providing guidance on how to evaluate the effect of uncorrected misstatements on the financial statements when judgments are involved. Currently guidance is included only when projections are involved and the auditor is expected to develop a range of possible outcomes as a basis of comparison with management’s range or point estimate. Additional guidance is needed because, in our view, it will often not be possible for auditors to develop an independent range as a basis of comparison for complex estimates, such as ECL.	6A, 6B. Cross refer to ISA 450, paras. 10-13 and para. A3 with respect to evaluation of misstatements in A2-A3 AND A142-A146 – and additional guidance needed to address situations where auditor is not able to develop a PEorR	
Q6.2 BCBS	the Committee views the Application Material in paragraphs A142–A146 as fundamental to the final standard, and recommends that the IAASB move this guidance to the level of Requirements.	6C. Elevate A142-A146 to requirement	
Q6.3 EBA	we also suggest that some of the elements of the ED could be strengthened and further clarified. In particular, with regards to the auditor’s response to the risk of material misstatement, it is important that more guidance is provided on how the outcome of the use of an auditor’s own range or point estimate interacts with the level of the materiality applied in the audit and how this may be reflected in the audit report.	6D. More guidance on how using auditor’s PEorR interacts with materiality	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	we support connecting the results of this audit procedure [para 23] with the level of the materiality applied in the audit (paragraphs A144 and A145) and in particular, that the standard includes more guidance on how the outcome of the use of an auditor’s own range or point estimate interacts with the level of the materiality applied in the audit and how this may be reflected in the audit report.		
Q6.4 IAIS	Yes, we believe the requirement in paragraph 23 and related application material in para. A2–A3 and A142–A146 will result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate.	6E. Supportive comment	
Q6.5 IFIAR	Paragraph A144 indicates that auditors may need “to reconsider whether sufficient appropriate audit evidence has been obtained regarding the reasonableness of the amounts within the range” in situations where there are variations in ranges or point estimates which are material. We support the inclusion of guidance to this effect as we consider it relevant to promoting the exercise of appropriate professional scepticism by the auditor. However, we recommend including further requirements in the ED in this regard.	6C. Supportive of guidance in A144 but elevate to requirement	
Q6.6 IRBA	The requirement in paragraph 23 and related application material in ED-540 will result in a more consistent determination of the misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate.  However, with reference to paragraph A144 of ED-540, the variation in the auditor’s range may be significant and multiples of materiality. Therefore, it is necessary for ED-	6D, 6E. Supportive of guidance A2-A3 AND A142-A146 but more guidance A144 when auditor’s range is multiple of materiality	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	540 to provide more guidance on how the auditor addresses a significant variance that is multiples of materiality. This is particularly relevant in the financial services audit environment.		
Q6.7 UKFRC	We believe they will help, but see also our comments above in response to questions 2 and 5.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.8 AUASB	... While paragraph A2 describes the concept of ‘reasonable’, it is subjective and general in nature. The AUASB believes it would be beneficial for the IAASB to provide more guidance and key considerations to facilitate practical application of the term ‘reasonable’.	6F. Concept of reasonable is subjective and general in nature – more guidance needed	
Q6.9 AUASB	ED 540 needs clarification that in circumstances where sufficient and appropriate audit evidence cannot be obtained from management, then the auditor will assess the impact of this and it may result in a modification to the opinion in the auditor’s report based on a scope limitation. Additionally, the AUASB considers that further guidance is needed to clarify the expectations of when an auditor’s range should be developed and how that range is utilised in evaluating management’s point estimate. The AUASB does not consider that the requirement in paragraph 23 with the associated guidance will result in a more consistent determination of a misstatement.	6G. Clarify in guidance that where SAAE not able to be obtained auditor considers impact and may result in modification of auditor’s report	6H. A142-A146 will not result in more consistent determination of a misstatement
Q6.10 AUASB	The AUASB considers that the determination of materiality is still open to interpretation and has not been sufficiently considered within the ED, particularly for those misstatements that represent judgemental differences rather than factual misstatements. The AUASB considers that a greater volume of principle based examples would be helpful in the application material, or within an Appendix,	6D. More guidance on evaluating materiality of misstatements, particularly for judgmental misstatements – A145 visual examples	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	on the use of the point estimate or range and how misstatements are calculated. Visual examples of how the range applies in paragraph A145 could be beneficial.		
Q6.11 CAASB	For clarity, we suggest including a cross-reference in ISA 540.23 to ISA 700.13(c), with some guidance to explain the relationship. This would provide an appropriate lead-in to the important requirement that follows in the second sentence, which states “In making this evaluation, the auditor shall consider all relevant audit evidence obtained whether corroborative or contradictory.”	6B. Cross reference para 23 to ISA 700.13(c) and add guidance to explain relationship	
Q6.12 IDW	We believe that the requirement in paragraph 23 and related application material will result in a more consistent determination of misstatements - in particular when the auditor uses his or her own range to evaluate management's point estimate.	6E. Supportive of A2-A3 AND A142-A146	
Q6.13 MAASB	The AASB is of the view that the requirement in paragraph 23 and related application material will result in more consistent determination of a misstatement.	6E. Supportive of A2-A3 AND A142-A146	
Q6.14 NBA	Is it made clear how to deal with big differences between the management’s point estimate and the auditor’s point estimate or range? In paragraph A144 is stated that this does not necessarily has to be a misstatement. However, if there are big differences, the auditor should reconsider the audit evidence.	6G. Clarify guidance in A144 as to evaluation of misstatement when there are big differences between management’s PE and auditor’s PEorR	
Q6.15 NBA	In paragraph A145 is stated that the difference between the management’s point estimate and the nearest point of the auditor’s range is the misstatement. Isn’t this contradictory?		6H. Questions whether A145 is contradictory

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q6.16 NBA	The relationship between materiality and estimation uncertainty is not fully explained. We recommend to develop more guidance in this area.	6D. More guidance on relationship between materiality and estimation uncertainty	
Q6.17 NZAuASB	In our view, consistent determination of misstatements will continue to present a challenge, particularly for those misstatements that represent judgemental misstatements rather than factual misstatements. In relation to determining misstatements, ED-540 does not provide sufficient guidance on the auditor’s assessment and evaluation of misstatements that arise as a result of a difference in judgement. As it relates to estimates, for those misstatements identified as judgemental, the auditor may be less likely to request management to make an adjustment. Guidance that addresses the auditor’s considerations in relation to judgemental misstatements would be helpful, for example, the auditor’s considerations when determining whether to request management to adjust for a judgemental misstatement.	6G. More guidance on the auditor’s assessment and evaluation of misstatements that arise as a result of a difference in judgement	
Q6.18 NZAuASB	The requirement in paragraph 23 applies to disclosures as well as amounts recorded in the financial statements. However, applicable application material appears to be scattered throughout ED-540. For example, paragraphs A124-A125 discuss what the auditor may do when the auditor concludes that disclosure of estimation uncertainty is not reasonable in light of the circumstances and facts involved. In our view, this guidance would be more appropriately included in the discussion of misstatements. Similarly, paragraphs A135-A138 address disclosures related to accounting estimates. We consider that a robust discussion (within one section rather than in separate sections in the application material) of the auditor’s	6I. Relocate guidance in A124-A125 and in A135-A138 to guidance to para 23 as will make a more robust discussion of evaluation reasonableness of disclosures	



**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	considerations when determining the reasonableness of disclosures (in addition to those relating to estimation uncertainty) would significantly enhance the standard and lead to more consistent determination of misstatements related to disclosures		
Q6.19 <b>BDO</b>	<p>We support the proposed changes in determining whether a misstatement exists and the amount of the misstatement. This approach will lead to more consistency in determining the misstatement relating to an accounting estimate.</p> <p>We propose including additional guidance when using an auditor’s range to evaluate management’s point estimate. This will also be helpful in assessing management bias as we would expect management’s point estimate to be closer to the middle of the range rather than the outer edges of the range. We also suggest adding a more explicit example to convey what is required and what constitutes a misstatement where the auditors’ range is wider than materiality. Further, we also recommend changes to the wording in the application material, specifically paragraphs A144 and A145, to clarify the requirements when differences exist between management’s point estimate or range and the auditor’s point estimate or range.</p>	6E, 6G. Supportive comment <b>A2-A3 AND A142-A146</b> but additional guidance needed on specific matters (evaluating management’s PE which should be nearer the middle of the range; add an example of a misstatement where auditor’s range is greater than materiality; and clarify in <b>A144-A145</b> implication when differences exist between management’s PEorR and auditor’s PEorR)	
Q6.20 <b>BDO</b>	We note that from a reader’s perspective there is some inconsistency in the application and other explanatory material where there is a separate section on misstatements compared to the requirements where paragraph 23 is included in the Overall Evaluation Based on Audit Procedures Performed section.	6G. Align headings in Requirements and <b>AM relating to para 23</b> (no heading in Requirements section)	
Q6.21 <b>DTT</b>	DTTL believes that it is beneficial to clarify that when the auditor concludes an accounting estimate is not reasonable,	6E. Supportive comment ( <b>A2-A3 AND A142-A146</b> ), particularly <b>A145</b>	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	a misstatement exists. The clarification of the requirement in paragraph 23 and the related application material in paragraphs A142–A146 of ED-540 should result in a more consistent determination of a misstatement, especially when the auditor is required to evaluate management’s point estimate as noted in paragraph A145 of ED-540.		
Q6.22 EYG	<p>Paragraph 23, which has been extended to include specific evaluation of disclosures related to accounting estimates, does not provide any application material related to the auditor’s identification and evaluation of misstatements in qualitative disclosures. Qualitative disclosures are particularly prevalent in management’s disclosures about accounting estimates and such disclosures can be challenging to evaluate (see our response to Q6).</p> <p>As noted in paragraph A2 of ED-540, the applicable financial reporting framework typically requires qualitative disclosures about accounting estimates, including how they are made and the degree of estimation uncertainty related to them. Evaluating the nature and extent of management’s disclosures against the criteria of the financial reporting framework, which may be objective-based, can be quite challenging in practice, including as it relates to identifying misstatements in those disclosures. In ED-540, paragraph 23 does not have any application material that addresses or assists with identifying misstatements in qualitative disclosures, which in our view is a critical gap in light of the fact that the evaluation in paragraph 23 has been specifically extended to include evaluation of disclosures.</p>	6G. More guidance on evaluating misstatements in qualitative disclosures relating to AEs	
Q6.23 EYG	We believe that the application material in paragraphs A142–A146 is helpful as it relates to determining	6E. Supportive comment (A2–A3 AND A142–A146)	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	misstatements in accounting estimates. In particular, paragraph A145 is quite clear as to how misstatements are to be calculated in comparison to an auditor’s point estimate or auditor’s range, and this guidance should result in a consistent determination of misstatements when an auditor’s point estimate or range is used in evaluating the estimate.		
Q6.24 EYG	We find it useful that paragraphs A2 and A3 provide explanations of the terms “reasonable” and “appropriate” in the context of management’s compliance with the applicable financial reporting framework. In Appendix 2 to this letter, however, we raise further questions about the use of the term “reasonable” as it relates to the auditor’s evaluation of disclosures and we encourage the IAASB to consider the implications of this change in terminology more holistically across the ISAs.	6E, 6J. Supportive of A2-A3 but consider implications of change more holistically across the ISAs	
Q6.25 EYG	Because paragraphs 13 and 14 of ISA 700 (Revised) address the auditor’s evaluation of fair presentation of the financial statements, including the disclosures, we believe it would be more appropriate for the application material in ED-540 to address and explain the relationship of the required overall evaluation of estimates and related disclosures to the evaluation of fair presentation in ISA 700 (Revised). In this regard, we believe such application material would be best placed in support of the overall evaluation in paragraph 23 of ED-540 and not paragraph 21, which addresses the separate evaluation of whether sufficient appropriate audit evidence has been obtained.	6B. AM to para 23 should cross refer to ISA 700.13-14 and explain relationship of these separate evaluation requirements with respect to disclosures	
Q6.26 GTI	If the intention is to evaluate the body of estimates on an overall basis, we are of the view that application material should be developed to indicate that there may be	6G. If intent is for evaluation (paras. 22-23) to be for all estimates taken together then clarify that	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	circumstances when in addition to performing the overall evaluation, an estimate may be sufficiently complex that it would be appropriate for the auditor to perform an individual stand back analysis on that estimate.	the evaluation should be made separately for some individual estimates	
Q6.27 KPMG	We are generally supportive of the requirement in paragraph 23 and its related application material.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.28 PKF	While we understand the reason for not defining “reasonable”, we do believe that this may have consequences in practice, resulting in a lack of clarity. It is not entirely clear how “reasonable” in the context of the application of the relevant reporting framework compares to identifying a material misstatement.		6H. Not defining reasonable will result in lack of clarity in practice – not clear how reasonable compares with a misstatement
Q6.29 PwC	<p>If an auditor’s point estimate or a range is considered to be a substantive analytic (paragraph A128), it would be inconsistent to use a point estimate or range to identify a misstatement as described in the guidance in paragraphs A143 to A145.</p> <p>However, if an auditor’s point estimate or a range is considered, as we believe, to be a test of detail, we support the application material in paragraphs A142-A146, in particular paragraph A145. When the auditor develops a range that includes reasonably possible outcomes supported by the audit evidence and management’s point estimate falls outside of that range, the misstatement cannot be anything other than the difference between management’s point estimate and the nearest point on the auditor’s range. Any suggestion that the misstatement is to a particular point in the auditor’s range implies the auditor is capable of developing a point estimate, which in many cases is not possible and the reason why a range was</p>	6E. Supportive of A145	6H. If an auditor’s PEorR is a substantive analytic then inconsistent with guidance in A143-A145

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	developed. Further, auditors cannot be expected to introduce more precision than is inherent in the requirements of the applicable financial reporting framework.		
Q6.30 PwC	Similarly, when management’s point estimate does fall within the auditor’s range then we agree that there is no misstatement. It is important that the auditor understands how management selected their point estimate and, taking into consideration the audit evidence obtained, whether such selection is consistent with the audit evidence. Any obvious indicator of bias or selection of an amount within a range that is inconsistent with audit evidence obtained or decisions taken with respect to other accounting estimates should be challenged. We therefore support the related application material (A147-A152) addressing potential bias.	6E. Supportive comment A147-A152	
Q6.31 ACAG	Paragraph A145 clarifies a misstatement as the difference between management’s point estimate and the nearest point of the auditor’s range. ACAG believes this will be challenging for auditors to practically apply, especially when the range can be multiples of materiality as provided for in para A134. ACAG questions the appropriateness of the range being multiples of materiality.		6H. Questions appropriateness of auditor’s range being multiples of materiality and considers A145 difficult to apply in practice
Q6.32 ACAG	ACAG recommends additional clarification on the interplay between the auditor’s range and materiality, as well as practical examples to help auditors: <ul style="list-style-type: none"> <li>practically apply this concept (multiples of materiality)</li> <li>determine at what point a material misstatement arises. ACAG also recommends that this requirement include a documentation consideration, as</li> </ul>	6D. More guidance needed on interrelationship between auditor’s range and materiality	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	documentation of the auditor’s evaluation of whether the accounting estimate is reasonable will be critical.		
Q6.33 AGA	<p>The introduction of the concept of “reasonable” has created a new category between “in accordance with the requirements of the applicable financial reporting framework” and “fair presentation.”</p> <p>We note that the auditor is required to evaluate “reasonableness in the context of the applicable financial reporting framework” but it is unclear what “in the context” means, without specific application guidance, and in particular “reasonable” may lead to auditors having to be held to a higher standard than what is their role – the auditor does not simply need to determine whether the estimate in the financial statements is presented in accordance with the requirements of the applicable financial reporting framework, but instead or in addition the auditor has to evaluate whether the estimate is “reasonable.” Better wording is already in paragraph A2 and should be used the main text of the standard i.e. the auditor shall evaluate whether the estimates have been presented in accordance with the requirements of the applicable financial reporting framework.</p> <p>The audit standard should not put auditors into the circumstance where the evidence is that the estimate is presented in accordance with the requirements of the applicable financial reporting framework, but it may not be considered “reasonable,” unless that is the clear intent of IAASB. If that is the intent, the standard should state it, or perhaps indicate that “an estimate presented in accordance with the requirements of the applicable financial reporting framework is reasonable, unless the</p>		<p>6H. Questions use of “reasonableness in the context of” language and prefers A2 language but misquotes it – effectively does not believe auditor should have responsibility beyond “presented in accordance with the requirements of the applicable financial reporting framework”</p>

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	conditions in ISA700.18 apply: financial statements prepared in accordance with a fair presentation framework do not achieve fair presentation.”		
Q6.34 AGC	Yes, paragraph 23 and related application material should result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.35 CIPFA	CIPFA considers that the ED-540 material is easier to understand and provides better support for evaluating whether management’s point estimate is reasonable or misstated.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.36 GAO	We also support the guidance in the related application material that notes when the auditor may conclude that the accounting estimate is reasonable and when then auditor should reconsider whether sufficient appropriate audit evidence has been obtained.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.37 INTOSAI	Yes, the requirement in paragraph 23 and related application material are expected to result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.38 PAS	Yes, the requirement in paragraph 23 and related application material will assist in more consistent determination of a misstatement.	6E. Supportive comment (A2-A3 AND A142-A146)	
Q6.39 ACCA-CAANZ	No. ED-540 does not distinguish between factual misstatements and judgmental misstatements and the different inherent issues with the two: for example, a		6H. Guidance A2-A3 AND A142-A146 not helpful as does not distinguish between factual and judgmental misstatements, and lacks discussion

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	judgmental misstatement may be more difficult to challenge. There is also little discussion around the consideration of disclosures in considering misstatements. ED-540 also lacks discussion of materiality which is key in the determination and evaluation of misstatements. Due to the challenging nature of the misstatements which may occur in relation to estimates, i.e. judgmental misstatements or disclosure misstatements, it would be appropriate for additional guidance in applying materiality to the audit of estimates. The focus of the requirements and application material appears to be on numerical calculation and determination where, due to the nature of estimates, an approach focused on the numbers does not account for all aspects of an estimate or the related disclosures.		of misstatements in disclosures and of materiality in evaluating misstatements – need more guidance on disclosures (qualitative aspects)
Q6.40 AE	... It would be useful to have clarity as to how this requirement ties into the auditor’s opinion. The only other ISA that deals specifically with a line item in the financial statements is ISA 501.	6B. Guidance on how paragraph 23 evaluation relates to auditor’s opinion	
Q6.41 AE	Moreover, we agree with using the term ‘reasonable’ when referring to accounting estimates. However, in relation to disclosures we recommend changing the word “reasonable” to “appropriate” Please refer to our response in question 8 (a).		6H. Suggests using “appropriate” rather than “reasonable” for disclosures
Q6.42 ANAN	In the opinion of the Association, the ED has provided enough guidance that will take care of the likely problems to be encountered since the standard requires that the management point estimate to be selected must represent the range of reasonable possible outcome of the measurement process and how the accounting estimate was developed with the requirement to explain the nature,	6E. Supportive comment (A2-A3 and A142-A146)	



**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	extent and sources of the estimation uncertainty. Furthermore, the auditor is to ascertain whether the data and assumptions used in making the accounting estimate are consistent with each other and are in agreement with those used in other accounting estimates or areas of the entity's business activities. These are all contained in paragraphs A2-A3 and A142- A146 which among others also provide guidance to assist the auditor in evaluating management's selection of a point estimate to be included in the financial statements.		
Q6.43 CAI	Subject to the points already raised in this letter, we welcome the additional guidance that is included in paragraph 23 (and related application guidance) of ED 540. We believe that guidance provides additional information to auditors in determining and evaluating misstatements.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.44 CPAA	Paragraph 23 does not provide sufficient clarity around evaluation of misstatements and how the auditor's point estimate or range is used to evaluate management's point estimate, however the application material does address this issue fairly clearly. The impact of the auditor's range being many multiples of materiality as discussed in paragraph A134 is not adequately addressed in the application material.	6D. More guidance needed on impact of auditor's range being multiple of materiality	
Q6.45 FACPCE	We believe that the requirement and the application material allow a more consistent determination.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.46 IAAA	Only once the requirements of paragraph 23 proposed in the draft are implemented will their effectiveness be known with certainty; However, we are motivated by the	6E. Supportive comment (A2-A3 and A142-A146)	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	procedures contemplated in both paragraph 23 and in the contents in the paragraphs of the application material.		
Q6.47 IBRACON	We support the application material in paragraphs A142-A146. When the auditor develops a range that includes reasonably possible outcomes supported by the audit evidence and management’s point estimate falls outside of that range, the misstatement cannot be anything other than the difference between management’s point estimate and the nearest point on the auditor’s range.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.48 IBRACON	Similarly, when management’s point estimate does fall within the auditor’s range then we agree that there is no misstatement. It is important that the auditor understands how management selected their point estimate and, taking into consideration the audit evidence obtained, whether such selection is consistent with the audit evidence. Any indicator of bias or selection of an amount inconsistent with audit evidence obtained or decisions taken with respect to other accounting estimates should be challenged. We therefore support the related application material (A147-A152) addressing potential bias.	6E. Supportive comment A147-A152	
Q6.49 ICAG	Yes, we believe so as long as general guidance is provided.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.50 ICAP	... we believe that the consistent determination of a misstatement may continue to be a practical challenge, as it would be subject to variations owing to the experience and familiarity factors.		6H. Consistent determination of misstatements will not be achieved due to variation in auditor experience
Q6.51 ICAS	We believe that the requirement in paragraph 23 and related application material should result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate	6E, 6H. Supportive comment (A2-A3 and A142-A146) but for disclosures should use “adequate” not “reasonable”	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	management’s point estimate. However, we would propose that the term ‘reasonable’ when used to describe disclosures in paragraph 23, should be replaced by ‘adequate’ to be consistent with the wording agreed during the IAASB’s disclosures project when referring to disclosures.		
Q6.52 ICAZ	Yes, the application material coupled with an auditor’s use of auditor’s range to evaluate management’s point estimate helps to identify misstatements arising due to fraud or error as per ISA 450 resulting in more consistent determination of a misstatements.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.53 ICPAK	Yes it will	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.54 KICPA	... The related application material would sufficiently enhance an auditor’s professional skepticism when auditing accounting estimates and result in more consistent determination of a misstatement as well.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.55 SAICA	Most of the survey respondents and SAICA agree that the requirements in paragraph 23 and related application material will result in a more consistent determination of whether an accounting estimate is reasonable or misstated, including when the auditor uses an auditor’s range to evaluate management’s point estimate.	6E. Supportive comment (A2-A3 and A142-A146)	
Q6.56 SAICA	One survey respondent commented that paragraph A144 uses the term “significant” which is open to interpretation and may not be applied consistently. It was suggested that additional guidance and examples should be provided of when a variation would be considered significant. The	6D, 6G. Guidance needed on “significant” as used in A144 and relate this to materiality	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	guidance and examples should also relate the concept of a ‘significant variance’ to that of materiality.		
Q6.57 SMPC	... Explanation of the relationship between the two standards [200 and 540] and the auditor’s opinion on the financial statements as a whole would be helpful, as it may be unclear as to whether such “reasonableness evaluation” could constitute some form of piecemeal opinion.	6B. Guidance on relationship between ISAs 200 and 540 to clarify if the “reasonableness evaluation” is a sort of piecemeal opinion	
Q6.58 SMPC	... there is a lack of reference to the concept of materiality in the ED which directly impacts all of the requirements mentioned in paragraph 23 and its related application material A2-A3 and A142-A146.	6D. More guidance on materiality in the evaluation of misstatements	
Q6.59 NDEG	We strongly support the application material in paragraphs A142-A146, in particular paragraph A145. When the auditor develops a range that includes reasonably possible outcomes supported by the audit evidence and management’s point estimate falls outside of that range, the misstatement cannot be anything other than the difference between management’s point estimate and the nearest point on the auditor’s range. Any suggestion that the misstatement is to a particular point in the auditor’s range implies the auditor is capable of developing a point estimate, which in many cases is not possible and the reason why a range was developed.	6E. Strongly supportive A142-A146, in particular paragraph A145	
Q6.60 NDEG	Similarly, when management’s point estimate does fall within the auditor’s range then we agree that there is no misstatement. It is important that the auditor understands how management selected their point estimate and, taking into consideration the audit evidence obtained, whether such selection is consistent with the audit evidence. Any obvious indicator of management bias or selection of an	6E. Supportive comment A147-A152	

**ED 540 – Responses referring to application material/guidance – Q6 – Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?**

Q6	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	amount within a range that is inconsistent with audit evidence obtained or decisions taken with respect to other accounting estimates should be challenged. We therefore support the related application material (A147-A152) addressing potential bias.		
Q6.61 NDEG	We suggest that more application guidance including practical examples be given to bring out the requirements of paragraph 22 & 23 more clearly.	6G. More guidance needed on application of paras. 22-23, with practical examples	

**ED 540 – Responses referring to application material/guidance – Q8 – In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: translations and effective date**

Q8	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
Q8.1 CNCC-CSOEC	we have a concern with the term “reasonable”. We recommend the IAASB changing the term “reasonable” to “appropriate when referring to disclosures.		8B. Suggest use “appropriate” rather than “reasonable” in relation to disclosures
Q8.2 NBA	We reiterate our general remark that long, complex sentences are difficult to translate. We recommend using shorter sentences. Furthermore, several terms such as ‘level 1 inputs’ might be difficult to translate.		8B. In general long complex sentences should be avoided and terms like Level 1 inputs
Q8.3 BDO	<p>Paragraph A35 defines significant data as data for which a ‘reasonable variation in the data or assumption would materially affect the measurement of the accounting estimate’. This term is used throughout ED-540 and due to its importance, we recommend expanding the definition and providing more examples to aid understanding and translation. The IAASB may also want to consider if, in the context of this particular new definition, whether there is:</p> <ul style="list-style-type: none"> <li>• A potential need to revise extant use of the term ‘data’ in other ISAs</li> <li>• The definition as written, creates a consistency issue in respect of extant ISAs where the term ‘data’ is currently used</li> <li>• A better construction of the definition to help avoid user confusion about whether ‘significant’ implies qualitative and/or quantitative considerations, and</li> <li>• A risk of potential overlap with use of the term ‘data’ and ‘significant data’ as it relates to the work of the IAASB’s data analytics working group.</li> </ul>	8A. A35 – provide more guidance on terms significant data and consider need to change term data in other ISAs	
Q8.4 BDO	Further, the proposed change to assess whether disclosures are reasonable versus adequate in the extant ISA may not be clear. We suggest including more guidance around this	8A. More guidance needed on reasonable v previous term adequate for disclosures	

**ED 540 – Responses referring to application material/guidance – Q8 – In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: translations and effective date**

Q8	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	change and the acceptable threshold levels related to reasonable instead of adequate. We also note that there is a potential inconsistency with the recently issued ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements, which requires an assessment of whether the disclosures are adequate.		
Q8.5 BDO	The application and other explanatory material uses the term ‘level 3 fair values’ when providing certain examples, such as paragraph A43 when discussing the involvement of experts. As this term is specific to IFRS, not all users may be familiar with its meaning in the context of accounting estimates. We recommend including a reference to the applicable accounting standard and an explanation of this term with context relating to accounting estimates.	8A. A43 - Cross refer technical term “Level 3 fair values” to IFRS standard	
Q8.6 DTT	Consistent with views expressed in this comment letter, DTTL notes that where possible the language should be as crisp and concise as possible. Opportunities to eliminate redundancies and repetitious phrases will assist in ensuring that the intention of requirements and the related application material are not “lost in translation.” These suggestions are included in DTTL’s listing of editorial comments in Appendix II.	8C. Keep language crisp and concise and delete redundancies	
Q8.7 GTI	We believe that potential translation issues could be encountered unless the meaning and differentiation of the use of “estimate” and “estimates” is made clear, as this is a subtle nuance that can be easily lost.	8A. Clarification of use of terms “estimate” and “estimates”	
Q8.8 AE	We previously noted that the consequences of using words such as “may” or “could” may, when translated, lead to different interpretations and meanings. The use of consistent terminology throughout the standards is particularly important to avoid difficulties in the eventual	8C. Consistent use of “may” v e.g. “could” would be helpful	

**ED 540 – Responses referring to application material/guidance – Q8 – In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: translations and effective date**

Q8	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	translation of the text. The IAASB has generally used “may” throughout its standards, and thus consistency would be appropriate going forward.		
Q8.9 AE	We also recommend changing the word ‘reasonable’ to ‘appropriate’ when referring to disclosures. We refer to paragraph 21. As noted in paragraph A2, the word ‘reasonable’ means ‘all the relevant requirements of the applicable financial reporting framework have been applied appropriately’ whereas the term ‘appropriate’ includes also the element of judgement which is important when deciding what disclosures to make about the accounting estimates. Indeed, according to paragraph A3 ‘appropriate’ both conforms with the requirements of the applicable financial reporting framework and considers judgements that are consistent with the measurement basis in the applicable financial reporting framework.	8B. Change reasonable to appropriate for disclosures	
Q8.10 IBRACON	We believe that it is important to eliminate redundancies and repetitive phrases to make the translation effort easier and to avoid that the intention of the requirements and the related application material are lost in the translation.	8C. Eliminate redundancies and repetitive phrases	
Q8.11 IBR-IRE	Words such as “may” or “could” may, when translated, lead to different interpretations and meanings. The use of consistent terminology throughout the standards is particularly important to avoid difficulties in the eventual translation of the text. The IAASB has generally used “may” throughout its standards, and thus consistency would be appropriate going forward.	8C. Consistent use of “may” v e.g. “could” would be helpful	
Q8.12 IBR-IRE	We also recommend changing the word ‘reasonable’ to ‘appropriate’ when referring to disclosures. We refer to paragraph 21. As noted in paragraph A2, the word ‘reasonable’ means ‘all the relevant requirements of the	8B. Change reasonable to appropriate for disclosures	



**ED 540 – Responses referring to application material/guidance – Q8 – In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: translations and effective date**

Q8	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	applicable financial reporting framework have been applied appropriately' whereas the term 'appropriate' includes also the element of judgement which is important when deciding what disclosures to make about the accounting estimates. Indeed, according to paragraph A3 'appropriate' both conforms with the requirements of the applicable financial reporting framework and considers judgements that are consistent with the measurement bias in the applicable financial reporting framework.		
Q8.13 SMPC	The main issue (as with all translations of technical material) is the risk of losing actual meaning of the material upon translation. Use of plain English will assist with minimizing this risk.	8C. Use plain english	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.1. CFA	We also support the guidance in the application material that notes when the auditor may conclude that an accounting estimate is reasonable and when then auditor should reconsider whether sufficient appropriate audit evidence has been obtained.	GA. General support for the guidance	
GC.2. CFA	We do, however, urge the IAASB to provide additional application guidance related to paragraph 21(a), such as examples of circumstances in which management might provide disclosures beyond those specifically required by the framework that are necessary to achieve the fair presentation.	GB. More guidance related to para 21(a)	
GC.3. CFA	We welcome the discussion of the risk of management bias when auditing accounting estimates in the application material. But we believe the evaluation of management bias should be included through the entire audit process. We also believe the section on communication with those charged with governance should include a discussion of management bias.	GC. More guidance on management bias in relation to communication with those charged with governance.	
GC.4. AICD	We found the explanatory memorandum along with the standard and accompanying application guidance lengthy, repetitive and difficult to assess the impacts on preparers and directors. We recommend that the impact of future proposals on these particular stakeholders, along with costs and benefits, to be clearly articulated in non-technical language in the accompanying material and that the standard and application guidance is better integrated to avoid repetitiveness.		GD. Review and reduce repetitiveness in AM.
GC.5. BCBS	We support the ED Application Material, in paragraphs A48–A60, for auditors to obtain an understanding of internal control over estimates for entities of all sizes, which largely clarifies the interplay between ISA 315, Identifying and	[Covered in more detail in next comment.]	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment; ISA 330, The Auditor's Responses to Assessed Risks; and ISA 540 (Revised). Our further suggestions include specific guidance on audit considerations and procedures for obtaining an understanding of internal control over estimates and aim to strengthen the link between ISA 315, ISA 330 and ISA 540.		
GC.6. <b>BCBS</b>	<p>We support the inclusion of paragraph 10(f) in the ED and the related Application Material in paragraphs A48–A60, which require auditors to obtain an understanding of internal control components as part of the risk assessment. ISA 315 contains a number of examples of matters that auditors should consider when obtaining an understanding of an entity's internal control environment. In addition, we recommend including in ISA 540 the following examples of matters to consider when obtaining an understanding of an entity's internal control environment with regard to accounting estimates:</p> <ul style="list-style-type: none"> <li>(i) Knowledge of the entity's internal control over estimates obtained by the auditor during prior audits and other engagements performed by the auditor, as well as engagements performed by internal audit;</li> <li>(ii) Control deficiencies relevant to accounting estimates previously communicated to those charged with governance or management;</li> <li>(iii) Preliminary judgments about the effectiveness of internal control over financial reporting relevant to estimates; and</li> <li>(iv) The size and relative complexity of the entity's operations in general and the complexity of estimates in particular. Complexity will likely affect the risks of material misstatement and the controls necessary to address those risks.</li> </ul>	GA, GE. Support for <b>A48-A60</b> . More guidance needed on understanding of various aspects of internal control.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.7. <a href="#">BCBS</a>	Within the Application Materials, we recommend changes to describe the audit procedures necessary to obtain an understanding of the internal control over estimates, including for audits of smaller entities. In particular, in paragraph A10, we recommend adding that, in audits of smaller entities, the auditor may obtain an understanding of internal control over accounting estimates by performing walkthroughs. In our view, inquiry alone is not sufficient to obtain an appropriate understanding of internal control over accounting estimates.	<a href="#">GE, GJ</a> . More guidance in <a href="#">A10</a> for small entities that auditor may obtain an understanding of internal control over accounting estimates by performing walkthroughs.	
GC.8. <a href="#">BCBS</a>	We are supportive of Application Material paragraph A30, which provides guidance on the factors auditors should consider as part of obtaining an understanding of models. In particular, we agree that additional controls around models are more likely to be relevant to the audit when the model used is complex, such as for ECL models.	<a href="#">GA</a> . Support for <a href="#">A30</a> .	
GC.9. <a href="#">BCBS</a>	<p>We recommend that the final standard include the following underlined edits in paragraph A49 to emphasise and clarify the need for the auditor to understand internal control when auditing most entities, and that obtaining an understanding of internal control is not limited to audits of entities with a wide range of estimates.</p> <p>"A49. <u>It is important for the auditor to understand the design and implementation of relevant controls to address the risks of material misstatement. This is true for most estimates, but its importance increases as the complexity of an estimate and the risks of material misstatement increase.</u> Some entities may have a wide range of accounting estimates, some of which may be significantly affected by, or subject to, complexity, the need for <u>the</u> use of judgment by management, and estimation uncertainty. In such circumstances, there may be an increased need for the application of specialized skills or knowledge, and</p>	<a href="#">GE</a> . Suggested edits to <a href="#">A49</a> putting emphasis on understanding of internal control.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	management may make extensive use of information technology in making the estimates. <u>For such estimates, it is even more important</u> for the auditor to understand the design and implementation of relevant controls, and also to test their design and operating effectiveness in addressing the assessed risks of material misstatements."		
GC.10. BCBS	<p>We suggest adding a new factor and propose adding the two sentences below to paragraph A58 to emphasise the importance of understanding the precision applied by management in executing controls and whether controls are designed at a sufficiently precise level to prevent or detect a material misstatement on a timely basis:</p> <p>"The auditor may consider the level of precision applied by management in executing these control activities. Controls should be designed to operate at a level of precision that would prevent or detect misstatements of one or more assertions regarding estimates."</p>	GE. Suggested edits to A58 adding more guidance in relation to internal control.	
GC.11. BCBS	<p>In addition we suggest that the following be added to paragraph A50:</p> <p>"To understand the likely sources of potential misstatements and, as a part of selecting controls to test, the auditor may achieve the following objectives:</p> <ul style="list-style-type: none"> <li>(i) Understand the flow of transactions related to the relevant assertions;</li> <li>(ii) Identify the points within the entity's processes at which a misstatement, including a misstatement due to fraud, could arise;</li> <li>(iii) Identify the controls that management has implemented to address these potential misstatements; and</li> </ul>	GE. Suggested additions to A50 adding more guidance in relation to internal control.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	(iv) Understand how information technology affects the flow of transactions."		
GC.12. BCBS	We support the inclusion of paragraph 16 and the related Application Material in paragraphs A98–A100. However, ... [goes on to recommend enhancement to the requirement]	GA. Support for A98-A100.	
GC.13. BCBS	We support the inclusion of paragraph A98, which explains circumstances where it is not possible or practicable for auditors to perform only substantive procedures, such as for banks that make extensive use of information technology and have a large number of estimates that are highly judgmental or complex. ... It would be further helpful if paragraph A98 began by providing guidance on those aspects that drive the decision to rely on controls, followed by examples of the limited circumstances that may support relying only on substantive procedures to provide sufficient appropriate audit evidence.	GA, GE. Support for A98 and request for more guidance therein in relation to internal control.	
GC.14. BCBS	We are concerned that references to audit considerations on disclosure are dispersed throughout the ISA 540 Requirements and Application Material. For example, guidance on disclosure is addressed in paragraphs (including, but not limited to) A2, A16, A57, A88, A123–125, A136, A137 and A153. This reduces the cohesiveness and understandability of this guidance and could undermine the importance attached to the auditor's responsibilities for disclosures. As such, we recommend that the IAASB bring this guidance together in one place. If this is not possible, we recommend increasing the cross references between the paragraphs noted above.	GF. Bring together currently dispersed guidance, or improve cross references, in relation to disclosures (e.g. in A2, A16, A57, A88, A123–125, A136, A137 and A153)	
GC.15. BCBS	... We also support the inclusion of paragraph A134 and agree that the auditor's evaluation of the reasonableness of	GA. Support for A134.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	disclosures becomes increasingly important as estimation uncertainty increases.		
GC.16. BCBS	We further recommend paragraph A2, which includes important expectations on disclosures, be included in the standard's Requirements, along with the material in paragraphs A123–A125.	GH. Elevate A2 and A123-A125 to requirements.	
GC.17. CEAOB	... we encourage the Board to provide further explanations regarding the notion of "reasonable" compared to the former terminology "adequate" in order to achieve consistency in application.	GB. Give more explanation of "reasonable".	
GC.18. CEAOB	We encourage the Board to check the consistent use all over the standard of the notion of "outcome of an accounting estimate" which has been defined in the standard (par. 9 f). Further clarity around the meaning of "outcome" in different situations would be useful to drive further consistency in application.	GB. Provide more clarity on "outcome" and check consistency of use.	
GC.19. CEAOB	In par. 19(b), we suggest changing the proposed requirement, by integrating an additional step, so that the auditor asks the entity's management to provide alternative evaluations before requesting the auditor to develop its own estimate. This would mean elevating the application material described in par. A126 into the requirements.	GH. Elevate A126 to requirement 19(b).	
GC.20. CEAOB	In addition to the requirements of par. 12, we believe that it is important to further highlight in the guidance that an involvement of specialized skills might be necessary to inform or confirm the evaluation, by the auditor, of level of estimation uncertainty in cases where only a specialist has the necessary level of understanding of the potential impact of the accounting estimate. Such involvement could either	GB. Give more guidance in relation use of specialists	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	lead to the specialist performing audit procedures but could also end with his involvement in the risk assessment.		
GC.21. <b>CEAOB</b>	Par. A22 indicates that the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify, in relation with ISA 315. We believe that missing indicators of impairment, that management failed to identify, should also be referred to in this paragraph, so that the auditor remains alert to any impairment indicators.	<b>GB.</b> Add reference in <b>A22</b> to missing indicators of impairment, that management failed to identify	
GC.22. <b>CEAOB</b>	In addition, we believe that further clarity about the actions to be taken by the auditor when internal control is not appropriately designed or is not operating well, in the context of an accounting estimate, would be welcome. A reference to ISA 330 could be added in this regard.	<b>GE.</b> Add more guidance to clarify actions to be taken by the auditor when internal control is not appropriately designed or is not operating well.	
GC.23. <b>EBA</b>	... we believe that the enforceability of the standard could be further improved, among others by improving the application guidance and thus helping auditors to meet the objectives of the ED and by including some of the application guidance of the ED as requirement at standard's- level.	<b>GB, GH.</b> General comment that guidance could be improved and some elevated to requirements.	
GC.24. <b>EBA</b>	... we also welcome the explicit clarification in paragraph A69 that for the audit of ECL of internationally active banks the auditor is likely to conclude that the use of experts will be necessary. In addition, we suggest that paragraph A69 refers to all banks instead of internationally active banks only as the audit of ECL is likely to be relevant to all banks and hence the auditor is likely to conclude that the use of experts will be necessary.	<b>GA, GB.</b> Support for <b>A69</b> and suggested addition to it	
GC.25. <b>EBA</b>	... We therefore very much support the inclusion of paragraphs 10(b) and A14-A15 referring to regulatory factors	<b>GA.</b> Support for <b>A14-A15</b> . [ <i>But see also next comment re A15</i> ]	



**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	as part of the risk assessment, particularly in the context of the audit of banks.		
GC.26. <a href="#">EBA</a>	On the other hand, in terms of the application of principles-based accounting frameworks where judgement is required, paragraph A15 highlights that regulatory requirements may 'not be consistent' with the requirements of the applicable financial reporting framework, which may indicate 'potential risks of material misstatement'. However, we believe that the example provided in this paragraph does not present the issue in a clear and holistic way and we suggest replacing this example by referring to the valuation rules for accounting and prudential purposes and bringing to the auditor's attention that differences between the objectives in the valuation of financial instruments for prudential and accounting purposes may exist and which can lead to different requirements and inputs used for each of them. In addition, we suggest changing the text of paragraph A15 by replacing 'not consistent' with 'not fully aligned', and 'potential risks of material misstatement' with 'bias' as the objectives of regulatory and accounting requirements have both similarities and differences.	<a href="#">GB</a> . Suggested edits to <a href="#">A15</a> .	
GC.27. <a href="#">EBA</a>	we agree with the application guidance provided in A26-A31 and with the explicit reference in A30 for the auditor to consider whether adjustments are made to the output of models used. But to give the related audit requirements in the application guidance more prominence, we suggest that besides paragraph 18(c) on the auditor's responses to the assessed risks of material misstatement, overlays are also mentioned in the main text of the standard in the risk assessment procedures of the auditor in paragraph 10 (e)(i).	<a href="#">GA</a> . Support for <a href="#">A26-A31</a> .	
GC.28. <a href="#">EBA</a>	In addition, the ED already recognises in A54 that those charged with governance have a strong role to play where accounting estimates require significant judgement, have	<a href="#">GB</a> , <a href="#">GI</a> . Suggested edits to <a href="#">A54</a> and link to <a href="#">A30</a> .	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	high estimation uncertainty or are complex to make. We believe that the list of factors under A54 should be extended to include as an additional factor the use of overlays by management, together with a link to A30.		
GC.29. EBA	We note that the definition of 'significant data' is included in A35. We therefore suggest a reference to paragraph A35 is included in paragraph 10 (e)(iii).	GI. Link A35 also to 10(e)(iii).	
GC.30. EBA	... we expect that in the case of ECL, the effectiveness of controls is more likely to be subject to audit. Having said that, we suggest to explicitly mention this in paragraph 16 and that for the audit of ECL, the relevant controls are likely to be tested while substantive procedures alone will not be sufficient. Alternatively, paragraph A98 could be moved from the application guidance to the main text of the standard to supplement paragraph 16.	GH. Elevate A98 to requirement 16.	
GC.31. EBA	... considering that the audit of smaller entities includes different challenges to the audit of larger ones, we would welcome specific guidance in the ED in this respect.	GJ. General request for more guidance for smaller entities.	
GC.32. EBA	We also suggest that the ED emphasises further the importance of complete and focused disclosures, which should be subject to appropriate audit procedures, by moving some of the application guidance in A120-A122 into the main requirements of the standard.	GH. Elevate some of A120-A122 to requirements.	
GC.33. EBA	We welcome the guidance in the ED on the audit of financial instruments in inactive or illiquid markets in paragraphs A36-38, which has been frequently requested in the past as it is an area of concern from a prudential perspective. We would suggest that the ED is further amended to refer to the audit work related to the disclosures for those financial instruments in inactive or illiquid markets, as it is expected that the relevant accounting estimates for these financial	GA, GK. Support for A36-A38 and suggestion for more guidance on work on disclosures in relation to illiquid markets.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	instruments will be accompanied by certain disclosures and auditors would need to perform additional audit procedures in this respect.		
GC.34. EBA	we welcome the reference in paragraph A157 of the ED regarding the usefulness of the communication between supervisors, regulators and auditors during the audit, which is also consistent with the EBA Guidelines on the communication between competent authorities and auditors <sup>7</sup> . We would suggest also that this paragraph is strengthened by encouraging auditors to initiate communication directly with the supervisors and regulators and where permitted to share information about the audited bank which is relevant to their respective functions.	GA, GB. Support for A157 and suggestion for more on communication with supervisors and regulators.	
GC.35. EBA	the ED could benefit from placing more emphasis on the importance of the audit of internal controls and making it clear that in the context of the audit of ECL, in most cases, these controls will need to be tested and that substantive procedures alone will not be sufficient.	GE. More emphasis on the importance of the audit of internal controls.	
GC.36. EBA	the ED could include more guidance on the circumstances (and criteria) under which the auditors should develop their own point estimate or range and an additional step of requiring auditors to first request management to consider alternative assumptions or to provide additional disclosures related to the estimation uncertainty before requesting auditors to develop their own estimates.	GL. More guidance in relation to auditor's PE or R.	
GC.37. EBA	it is important that more guidance is provided on how the outcome of the use of an auditor's own range or point estimate interacts with the level of the materiality applied in the audit and how this may be reflected in the audit report.	GL, GM. More guidance in relation to outcome of auditor's PE or R and materiality and reporting considerations.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.38. ESMA	the ED can be improved regarding the balance between the requirements and the application guidance, which do not have the same authoritative status. We are of the view that part of the application guidance should be transformed into binding requirements in order to ensure that the relevant provisions can be applied and enforced consistently. At the same time, ESMA is of the view that the application guidance should be as clear and concise as possible and therefore should avoid to the extent possible unnecessary repetition. Examples of both type of provisions are included in the Appendix to this letter.	GH. General view that some of the AM (not specified here) should be elevated to requirements.	GD. General view that AM should be reviewed and repetition eliminated.
GC.39. ESMA	ESMA welcomes that the discussion on the risk of management bias when auditing accounting estimates is included in the application guidance. ...	GA. Support for discussion of management bias in the AM	
GC.40. ESMA	Consequently, we are of the view that the notion of management bias should be incorporated throughout ISA 540 (Revised). This could be done e.g. through clarification that the definition of reasonable in paragraph A2 of the ED should include an attribute being “free from bias”, specifying that assumptions, as referred to in paragraph A32 of the ED, should be “free from bias” and including evaluation of management bias as one of the consideration required in paragraph A33 of the ED.	GC. Give more on management bias in A2 and A33.	
GC.41. ESMA	Furthermore, ESMA believes that the guidance on the assessment of management bias in paragraph A7 of the ED should be explicitly linked to the assessment of the outcome of an accounting estimate. Finally, ESMA is of the view that the ED could include additional examples on specific considerations pertinent to the evaluation of the management bias linked to auditing accounting estimates, e.g. related to ECL models, recognition and measurement of deferred taxes as well as goodwill impairment	GC. In A7, link management bias to assessment of outcome, and give more examples on specific considerations.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.42. ESMA	<i>[Further comments included in the analyses for Q4-Q6]</i>	n/a	
GC.43. IFIAR	The inherent risk assessment is a key element in the determination of the work effort to be performed in the audit of the estimates. As mentioned in paragraph 7 of this letter, we support the focus placed on an improved risk assessment regarding the audit of accounting estimates. We nevertheless believe the relationship, if any, between the different types of risk factors and the risk levels used in the ED should be further explained in the standard.	<b>GB.</b> Give more explanation of the relationship, if any, between the different types of risk factors and the risk levels used in the ED.	
GC.44. IFIAR	We note that the ED requires the auditor to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework. However, as acknowledged in the Explanatory Memorandum to ED, ISA 700 uses the terms “appropriate” and “adequate”, not “reasonable”, in relation to disclosures. We have concerns about how the inconsistencies in terminology would be applied in practice and encourage the IAASB to give this further consideration.		<b>GN.</b> Concerns about inconsistencies in the use of the terms “appropriate” and “adequate”, and “reasonable”.
GC.45. IOSCO	We are concerned that the ED does not address key methodology issues in testing estimates such as values of financial instruments. We believe that the Board should give priority to a further project to develop additional guidance in this area. While some of these issues might be also relevant to a project on data analytics, they should not be delayed pending such a project.	<b>GO.</b> More guidance on methodology issues in testing estimates (as a further project).	
GC.46. IOSCO	While sampling and error evaluation should be addressed more generally, there are specific issues for estimates such as the valuation of financial instruments that require the Board’s attention. Examples of those issues are discussed in the next several paragraphs. We believe that ISA 530 Audit	<b>GB.</b> Concern that more guidance is needed in relation to sampling and error evaluation.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	Sampling does not provide sufficient requirements or guidance to address these matters.		
GC.47. IOSCO	Where an auditor develops his or her own estimate to test the values of financial instruments in a portfolio, guidance is needed for setting sample sizes, setting thresholds for investigating differences, reviewing and investigating differences, identifying errors, and extrapolating and evaluating errors. For example, while paragraph A128 of the ED refers to ISA 520 Analytical Procedures in setting point estimates and ranges, the guidance on determining which differences do not require investigation in paragraph A16 of that standard is too general and is not sufficient to promote consistent application by auditors in practice. ISA 520 does not address fundamental questions such as: (i) how to set thresholds having regard to materiality, the precision required and the nature of the population; (ii) whether to address assessed risks by seeking greater precision in setting thresholds; and (iii) how to set thresholds for disaggregated populations. There is a risk that the auditor sets thresholds that are large enough to allow for differences caused by the auditor using different pricing sources from those used by management, rather than setting thresholds for the precision required. Similarly, if the auditor attributes differences identified to using different pricing sources, this would defeat the purpose of testing client values by using different pricing sources. For example, where an auditor is unable to find a suitable pricing source to capture inputs in the same time zone or on the same date as used for valuation by management, it would not be appropriate to compensate by increasing the acceptable thresholds to allow for the volatility in inputs or values over time, rather than focusing on the level of precision required.	GB. Concern that more guidance is needed in relation to sampling and error evaluation.	
GC.48. IOSCO	To address issues in practice, the standard should specifically state that it is not appropriate to set thresholds based on	GL. More guidance is in relation to setting thresholds based on tolerable differences in	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	tolerable differences in individual inputs (e.g. point differences in interest rates) without also quantifying and evaluating how those tolerable differences would impact point estimates and ranges used by the auditor to evaluate amounts in the financial statements.	individual inputs and impact on auditor's PE or R.	
GC.49. IOSCO	<p>Auditors may also be uncertain as to how to extrapolate and evaluate errors. This may include cases where values of an instrument recorded in the financial statements could be positive or negative (e.g. interest rate swaps) and errors identified from sample selections could be in opposite directions. This matter is not addressed in ISA 520 or in ISA 530.</p> <p>If these matters are not dealt with in the revised ISA 540, they should be given high priority in a separate project.</p>	<b>GO.</b> More guidance on how to extrapolate and evaluate errors (as a further project).	
GC.50. IOSCO	Paragraph 19(a)(ii) of the ED says that the auditor's evaluation of whether an accounting estimate, and related disclosures, are reasonable in the context of the applicable financial reporting framework includes obtaining sufficient appropriate audit evidence to support the reasonableness of management's conclusions. To the extent the auditor is unable to obtain sufficient appropriate audit evidence, there should be application guidance on potential impacts to the audit opinion and whether reporting the matter to those charged with governance is necessary. Given practice issues noted by some members, we believe that it is important to remind the auditor to consider the impact on their opinion in ISA 540 rather than to rely on the general requirements in paragraph 17 of ISA 700 Forming an Opinion and Reporting on Financial Statements.	<b>GM.</b> Guidance on reporting implications of auditor unable to obtain sufficient appropriate audit evidence.	
GC.51. IOSCO	The project to develop a revised ISA 540 was originally intended to result in guidance on auditing financial instrument values and loan loss provisioning under the expected credit loss model. While there is some guidance in	<b>GO.</b> Develop supplemental guidance on the audit of accounting estimates in areas such as financial instrument valuation, loan loss provisioning under an expected loss model,	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>the proposed amendments to ISA 500, the ED does not contain specific requirements or guidance in these areas.</p> <p>We appreciate the imperative to issue a revised version of ISA 540 before IFRS 9 Financial Instruments is in effect for years commencing on or after 1 January 2018, and that the ED provides high level requirements and guidance for audit work across a broad range of accounting estimates. However, we believe it is important to provide specific guidance on the audit of accounting estimates in areas such as financial instrument valuation, loan loss provisioning under an expected loss model, impairment of non-financial assets, tax balances, and valuation of insurance policy liabilities.</p> <p>We encourage the Board to provide supplemental guidance in these areas as a high priority after the release of the revised ISA 540.</p>	impairment of non-financial assets, tax balances, and valuation of insurance policy liabilities.	
GC.52. IOSCO	... the Board may need to provide guidance to address the impact of proprietary models.	GB. Consider possible need for guidance on proprietary models.	
GC.53. IOSCO	<p>The Board should provide further clarification on the following definitions:</p> <ul style="list-style-type: none"> <li>Accounting estimate: Paragraph 9(a) includes the term 'monetary amount.' It is not clear whether this encompasses an estimate of zero and whether it includes disclosures of non-monetary amounts.</li> <li>Fair presentation framework and compliance framework: These terms are used in paragraph 21 and should be cross referred to the definitions in ISA 200 Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.</li> </ul>	GB. Provide further clarification of "accounting estimate" and "fair presentation framework and compliance framework".	



**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.54. <a href="#">IRBA</a>	Paragraph A158 of ED-540 should be elevated and included as a requirement of the standard. In addition, paragraph A158 should be re-constructed as part of the requirements to clearly articulate that the auditor shall document (refer to the “editorial comments” section below):	<a href="#">GH</a> . Elevate <a href="#">A158</a> to requirement.	
GC.55. <a href="#">IRBA</a>	the last three sentences of paragraph A10 of ED-540 should be moved to the application material on documentation. (Refer to the “editorial comments” section below.)	<a href="#">GP</a> . Move last three sentences of <a href="#">A10</a> to the application material on documentation	
GC.56. <a href="#">IRBA</a>	A few technical and lead partners of banks from firms also commented on documentation where they suggested that more guidance be provided on documentation, especially as it relates to the audit of the expected credit loss model used in developing impairment provisions.	<a href="#">GQ</a> . Provide more guidance on documentation	
GC.57. <a href="#">IRBA</a>	paragraph A139 should also make reference to paragraphs 17-20.	<a href="#">GI</a> . Link <a href="#">A139</a> also to paras 17-20.	
GC.58. <a href="#">IRBA</a>	We support the inclusion of paragraph A157 in ED-540, which recognises that direct communication with regulators or prudential supervisors may be permitted or required. Communication between auditors and regulators or prudential supervisors, particularly in the banking industry, is especially important and useful.	<a href="#">GA</a> . Support for <a href="#">A157</a> .	
GC.59. <a href="#">UKFRC</a>	Paragraph 11 of the ED requires the auditor to review the outcome of accounting estimates included in the previous period financial statements or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risk of material misstatements in the current period. The related application material in paragraph A62 identifies that a retrospective review may also be performed for accounting estimates made over several periods or a shorter period (such as half-yearly).	<a href="#">GB</a> . Suggested edit to <a href="#">A62</a> .	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>We believe that, as recognised by the application material, reviewing the outcome of previous accounting estimates other than those just in the previous accounting period can help provide a better understanding of management's effectiveness in making accounting estimates. This is particularly relevant for estimates that involve judgments and projections extending more than one year (e.g. the outcome of management's credit loss projections over a cycle). Accordingly, we recommend that the requirement should be amended along the following lines:</p> <p>"The auditor shall review the outcome of previous accounting estimates included in the previous period financial statements, or, where applicable, their subsequent re-estimation, when it will assist in identifying and assessing the risk of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made."</p>		
GC.60. UKFRC	In relation to some accounting estimates, paragraph A65 of the ED clarifies that the estimate itself will not have an outcome. We recommend that this guidance is extended to explain that while this may be the case for the overall estimate, some of the valuation attributes used in making the estimate may nonetheless have an outcome that can be reviewed. For example a Level 3 fair value could be based on a Level 3 input such as a projected cash flow derived from an asset or liability, and that cash flow may have an output that can be back-tested in subsequent periods.	GB. Suggested edits to A65.	
GC.61. UKFRC	Paragraph A123 sets out "Matters that may be relevant in obtaining sufficient appropriate audit evidence about the reasonableness of management's point estimate and related	GH. Elevate A123 to requirements (or at least remove the "may").	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>disclosures include, when applicable.” We believe that, when applicable, these matters “will” be relevant in obtaining sufficient appropriate audit evidence. Accordingly, as stated in the main letter, we recommend that paragraph A123 should either be incorporated in the requirements or, at the least, amended to remove the “may” by for example changing it to:</p> <p>“... Matters that may be relevant to obtaining sufficient appropriate audit evidence about the reasonableness of management’s point estimate and related disclosures include, when applicable:”</p> <p>This would be an approach similar to that used in ISQC 1 to avoid overly detailed requirements.</p>		
GC.62. UKFRC	Further, paragraph A123 is cross referred to paragraph A2 which describes what is meant by “reasonable”, including that all relevant requirements of the applicable financial reporting framework (AFRF) have been applied “appropriately”. If paragraph A123 remains as application material, it would be helpful to move it up to follow paragraph A2.	GP. If A123 not elevated, move to follow A2.	
GC.63. UKFRC	We also recommend that more emphasis is given to the importance of the presentation of disclosures in the financial statements and the need for them to be understandable by the users. This could be included in paragraph A136.	GK. Give more emphasis in A136 on importance of the presentation of disclosures	
GC.64. UKFRC	Paragraph 26 cross refers to communication requirements in ISAs 260 and 265. However, the related application material in paragraph A155 is worded in a manner that suggests this is optional. We recommend that paragraph A155 is amended, by deleting “may” in the second sentence, to be clear these are requirements and not optional.	GN. Edit A155 to clear the requirements referred to are not optional.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.65. AUASB	We also encourage the distinction between application paragraphs versus illustrative guidance material. Where material is added to ISA 540 which may be considered specific to certain types of estimates or industries, such as financial services, these may be better placed outside of the standard in industry-specific illustrative guides.		GD. Move industry specific guidance to outside the standard.
GC.66. CAASB	<p>We have identified terminology used within ED-540 that we believe could be defined or further explained. Those are:</p> <ul style="list-style-type: none"> <li>“specialized skills and knowledge”;</li> <li>“further audit procedures”;</li> <li>“significant data”; and</li> <li>“significant assumptions”.</li> </ul> <p>In regard to the use of the phrase “further audit procedures”, we recognize that it is meant to encompass procedures performed in response to assessed risks of material misstatement, including tests of controls (if any), tests of details and analytical procedures. However, not all stakeholders were clear as to the intention of using this phrase. Some stakeholders interpreted the reference to “further” in paragraph 15(b) as further to what is required in 15(a). Therefore, they concluded that when inherent risk is not low, they would need to perform one of the procedures listed in paragraph 15(a), as well as perform procedures over the matters in paragraphs 17-19. While we recognize that the definition of “further procedures” is included in the Glossary of Terms, for clarity, we recommend that the definition also be included in ISA 540 (Revised).</p>	GB. Add further guidance/clarity in relation to particular terminology.	
GC.67. IDW	We are rather concerned with the length of the application material and the appendices. The material and appendices read very much like a textbook on how to deal with accounting estimates in an audit. We do not believe it to be		GD. Rationalize the content of the application material

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	the role of the IAASB to educate auditors, but to issue standards that contain requirements and application material to assist in the application of those requirements. This means that application material should not include matters that involve educating auditors about issues in which they need to be competent before accepting an engagement. We therefore recommend that the IAASB seek to rationalize the content of the application material.		
GC.68. IDW	We note that the word "includes" or "including", which has always been a part of the drafting repertoire of the IAASB, is being badly overused. We first noticed this tendency in the application material of ISA 701, in ISA 720, and in the disclosures project, but this tendency has reached new heights in ISA 540. In some cultures, the overuse of this word is indicative of sloppy thinking. We recommend that the IAASB seek to redraft some of the wording so that this overuse is ameliorated.		GD. Reduce use of "includes" and "including".
GC.69. IDW	We found the attempt to provide a description of the term “reasonable” in the context of measuring accounting estimates and making the related disclosures to be helpful. We note, however, that the first three bullet points in A2 apply only when the applicable financial reporting framework actually addresses these bullet points: if the applicable financial reporting framework does not address these, then the bullet points do not apply and the description of reasonableness ceases to be useful. Perhaps consideration ought to be given as to the meaning of reasonableness when the financial reporting framework does not address these three bullet points. The other considerations, however, were helpful in this respect.	GB. Provide further guidance in A2 when the financial reporting framework does not address the first three bullet points.	
GC.70. IDW	We did not find the description of the term “appropriate” to be helpful, as the description appears not to articulate with the use of the term “appropriate” in the second sentence of		GN. Disagree with use of "appropriate" in A2.

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	A2. Furthermore, it is unclear to us how “reflects judgements that are consistent with the measurement basis in the applicable financial reporting framework” adds to the concept “complies with the applicable financial reporting framework”: it just seems to be conceptually redundant. Furthermore, if the financial reporting framework does not address the first three bullets in A2, what is the difference between the description of appropriate and reasonable in A2 and A3? Overall, we believe that either the description of appropriate can be deleted, or a better description that articulates with the description of reasonable in A2 is needed.		
GC.71. JICPA	At the same time, we believe there are areas where just changing auditing standards will not necessarily be sufficient to achieve the aim of the revisions. For example, for additional disclosures to be provided for users’ understanding even when the disclosures of estimation uncertainty are in accordance with the applicable financial reporting framework (paragraphs A124 and A125), not only the auditor but also management and those charged with governance themselves, need to have an attitude of being willing to make such disclosures. ...	GK. Comment suggests more guidance on disclosures could be helpful (e.g. in A124 and A125).	
GC.72. NBA	The ISA includes in the application material educational material, that explains for instance on what a model is (A26 – A29), which might be helpful to certain auditors whilst others are aware of this information. We wonder if as a general principal for this and other ISA’s application material that is educational should not be moved to appendices. Real application material should focus on applying the requirements not on educating the auditor on more broader issues. In our opinion this would improve the accessibility of this ISA and the ISA’s in general.		GD. Move educational material (e.g. A26-A29) to appendices.

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GC.73. NBA	With regards to applying ISA 315 the ED provides 4 requirements and 85 paragraphs of application material. We feel that a lot of this material could be integrated in ISA 315. We fully accept that ISA 315 is a separate project and that it is too early to update ISA 315 with the material in ISA 540. At the same time we wonder whether it wouldn't be a better solution to create a temporary solution (for instance ISA 315 A) thus creating a clean ISA 540.		GR. Move material relevant to ISA 315 to 315.
GC.74. NBA	Paragraph A2: The first sentence repeats paragraph 8 and could therefore be removed. We do not understand where the other considerations come from, especially the second bullet. The second bullet could be moved upwards to the "normal" considerations.		GD. Eliminate duplication in A2 and merge bullets
GC.75. NBA	Paragraph A71 is a repetition of paragraph 13 and can therefore be removed.		GD. Delete A71 as it repeats para 13.
GC.76. NBA	References between the paragraphs in the application material make the ED also complex. We recommend limiting this as much as possible.		GD. Rationalise cross references between paragraphs.
GC.77. NBA	Appendix I is very theoretical and explains the techniques. We recommend considering to make this more practical and explain how the auditor should deal with the various measurement bases.	GB. Revise appendix 1 to make it more practical.	
GC. 78. NZAuASB	Many of our constituents also noted that, throughout ED-540, the application material and examples focussed on issues for audits of financial institutions. In our view, ED-540 would be enhanced by considering audit issues particular to other sectors, for example, the public sector. An issue of concern to our public sector constituents is the valuation of assets, particularly those with estimation uncertainty, such as valuation of heritage assets and infrastructure assets.	GB. More guidance for sectors other than financial – e.g. the public sector	

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC. 79. NZAuASB	The appendices to ED-540 are an example of content which in our view is unnecessary.		GD. Eliminate the appendices
GC. 80. NZAuASB	While we acknowledge that it is sometimes helpful to include information about the responsibilities of management and those charged with governance, in our view, such references should be limited to essential explanatory material.		GD. Limit references to responsibilities of management to essential explanatory material
GC. 81. NZAuASB	the NZAuASB recommends that the IAASB carefully consider the relevance of each of the 211 application paragraphs to ED-540 with a view to determining whether the guidance is essential.		GD. Review the guidance with a view to rationalising/reducing it.
GC. 82. NZAuASB	The NZAuASB found the flowchart supplement to ED-540 to be very helpful in explaining the overall approach of the standard, and recommends that the IAASB consider incorporating such a flowchart in the introductory material to the standard.	GB. Consider including the flowchart.	
GC. 83. NZAuASB	The terms “significant assumptions” and “significant data” are key to understanding and appropriately applying ED-540. The NZAuASB notes that the meaning of significant assumptions and significant data is described in paragraph A35. However, such description is lost in the extensive application material. The NZAuASB believes that definitions of these terms would be helpful.	GP. Move explanations of “significant assumptions” and “significant data” to definitions.	
GC. 84. NZAuASB	Paragraph A1 – To illustrate the breadth of accounting estimates, the NZAuASB suggests adding the following additional examples provided by practitioners to paragraph A1:  o Biological assets  o Investment properties	GB. Add suggested examples to A1.	



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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.85. BDO	<i>[Comments on matters addressed by the more specific questions].</i>	n/a	
GC.86. CHI	Paragraph A72 and A73 of the exposure consists of examples of estimates which may have an inherent risk of low or not low based on the auditor's identification and assessment of the risk. While presenting examples are helpful, we are concerned that as presented the examples may lead to auditor bias in that the auditor may conclude that all examples in A72 are considered to be low inherent risk and all examples in A73 are to be assessed as not low. We recommend including language to make it clearer that other factors could result in the example estimates moving from the low to not low bucket and vice versa.	GB. Add further guidance to A72 and A73 to clarify that other factors could result in the example estimates moving from the low to not low bucket and vice versa.	
GC.87. CHI	Paragraph 19 of the Exposure Draft addresses objectives for when inherent risk is not low due to estimation uncertainty. Specifically, paragraph 19 (b) indicates "When, based on the audit evidence obtained, in the auditor's judgement, management has not appropriately understood and addressed the estimation uncertainty, the auditor shall, to the extent possible, develop an auditor's point estimate or range to evaluate the reasonableness of management's point estimate and the related disclosures in the financial statements that describe the estimation uncertainty." We believe that further clarification is needed to expand on the impact of when management has not understood estimation uncertainty. As currently drafted, an auditor could infer the only response necessary when management has not understood estimation uncertainty is to perform an auditor's point estimate/range. Specifically, we would recommend adding application material indicating the auditor should consider whether an internal control deficiency exists and to respond accordingly. As part of that response, if the auditor determines that management's failure to appropriately understand estimation uncertainty is a significant risk,	GB. Provide more guidance to expand on the impact of when management has not understood estimation uncertainty.	

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	further clarification would be required on how to apply paragraph 21 of ISA 330 which states that “...When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details”. Since paragraph 19(b) of the Exposure Draft response is defined to be a substantive analytic in paragraph A128 of the Exposure Draft it appears an auditor’s point estimate/range would not be a sufficient audit response in accordance with ISA 330.		
GC.88. DTT	In order to reinforce the scalability aspects of this requirement [para 10], DTTL believes that application material may be appropriate to clarify for the auditor that this understanding as required by paragraph 10 of ED-540 may be effectively performed at the entity-level and not necessarily at the individual estimate-level.	GB. Add AM for para 10 to clarify for the auditor that this understanding as required by paragraph 10 of ED-540 may be effectively performed at the entity-level and not necessarily at the individual estimate-level.	
GC.89. DTT	Although the guidance in paragraph A78 of ED-540 provides some indication of the other relevant factors, these may be overlooked given the emphasis that is placed on the three factors throughout the requirements of the proposed standard. Given the circumstances of the engagement, it may well be possible that the relevant factors addressed in paragraph 78 of ED-540 could be aligned with, and may need to be considered equally with, the factors of complexity, use of judgment by management, and estimation uncertainty.	GB. Clarify that the relevant factors addressed in paragraph A78 could be aligned with, and may need to be considered equally with, the factors of complexity, use of judgment by management, and estimation uncertainty.	
GC.90. DTT	DTTL acknowledges that the application material describes both data and assumptions; however, given the longstanding history of auditors considering these items together and the practical challenges in consistently determining their discrete categorization, DTTL believes that this application material will not adequately address the risk that the work effort requirements of ED-540 are inappropriately applied (e.g., due to inconsistencies in views as to whether an item is either data or an assumption, or both).		GN. Concern about interpretation of the terms 'data' and 'assumptions'

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.91. DTT	DTTL does not believe that the application guidance in paragraph A35 of ED-540 provides sufficient direction to auditors as to how to identify “significant data”. DTTL also notes further that the revised management representations proposed by ED-540 would require management representations about significant data. Absent a very clear definition, this would be a very challenging, if not impossible, representation for management to provide. DTTL does not believe that the concept of “significant data” is necessary for the application of ED-540.		GN. Disagree with use of term “significant data”.
GC.92. DTT	In particular, DTTL does not agree with the attempt to describe the key concept of <i>appropriate</i> in paragraph A3 of ED-540 of the application material and that the description does not connect well with the content of paragraphs 6 and 23 of ED-540. The appropriateness of audit evidence is already defined in paragraph 13(b)(ii) of ISA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i> , and as such DTTL recommends deleting paragraph A3 of ED-540. DTTL is of the opinion that such a concept is used throughout the ISAs and already has a meaning that is understood by auditors.		GN. Disagree with description of the key concept of <i>appropriate</i> in paragraph A3
GC.93. DTT	Professional judgment plays a part in the auditor’s approach to what is reasonable and appropriate, and to attempt to describe these concepts as they relate uniquely to ED-540 may call into question the intent and meaning of those terms with respect to other ISAs.		GN. Concern about description of what is reasonable and appropriate
GC.94. DTT	While there is no explicit reference to IFRS in Appendix 1, DTTL believes that Appendix 1 is IFRS-measurement focused. Some of the statements made in Appendix 1 can only be accurate in the context of a particular financial reporting framework (for example, when using the leveling terminology for fair value, it may make sense in the context	GB. Revise appendix 1 to be more framework neutral.	

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>of IFRS and U.S. Generally Accepted Accounting Principles that both have the concept of level guidance; however, if another financial reporting framework does not use leveling, then the context of the statements would not be factual). Consequently, Appendix I as drafted may create confusion as to the accounting concepts used in the context of a particular financial reporting framework being used. DTTL recommends that Appendix 1 be drafted in a more framework-neutral manner. In doing so, this will reduce the risk of Appendix 1 becoming obsolete when there are changes to a financial reporting framework, such as IFRS or U.S. GAAP. Accordingly, DTTL has made certain drafting recommendations to Appendix 1, and these are reflected in <b>Appendix II</b> of this comment letter.</p>		
GC.95. EYG	<p>We note that paragraph A2 of ED-540 puts forth a definition of “reasonable, in the context of the financial reporting framework” that “all the relevant requirements of the financial reporting framework have been applied appropriately”, and that this definition applies to both accounting estimates and related disclosures in the financial statements. We can support this new explanation, particularly that both estimates and disclosures are evaluated using the context of the requirements of the applicable financial reporting framework. In fact, in our view, this definition is clearer than the term that is being defined (i.e. “reasonable”).</p> <p>In light of this revised explanation, we would support, and strongly encourage the IAASB to consider, replacing the term “reasonable” with a phrase that explains that the relevant requirements of the applicable financial reporting framework have been appropriately applied. We believe this would be a useful clarification for ED-540 to achieve consistency in both the auditor’s evaluation of estimates and</p>		<p>GN. Support explanation in A2 of “reasonable” but disagree with just using “reasonable” as a defined term. Suggest using longer description.</p>

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	in stakeholder expectations regarding how estimates and related disclosures are evaluated by auditors.		
GC.96. EYG	<p>Regardless of whether the IAASB changes the criterion for evaluation of estimates and related disclosures in ISA 540 to “reasonable” as proposed and newly defined, or in line with our recommendation to use the clearer language found in the definition in paragraph A2, we believe further holistic consideration across the ISAs of the effect of such change is necessary. This is because we find that the new explanation of “reasonable” would not apply exclusively to estimates and related disclosures, but would be applicable to all amounts and related disclosures throughout the financial statements. Consideration across the ISAs of the effect of the change should be specifically given to the:</p> <ul style="list-style-type: none"> <li>• Implications for the evaluation of disclosures in the financial statements that are not related to accounting estimates. In principle, we believe that there needs to be common criteria and terminology for the evaluation of all disclosures in the financial statements in order for a consistent evaluation of fair presentation. We do not support an evaluation of disclosures related to accounting estimates that uses what appears to be a higher threshold for fair presentation than the evaluation of other disclosures in the financial statements.</li> <li>• Implications for the auditor’s evaluation of misstatements in disclosures. Paragraphs A17 of ISA 450 , and A3 and A7 of ISA 705 (Revised) address evaluating whether misstatements in disclosures are material. This application material, which is not referenced in ED-540, speaks to the appropriateness, accuracy and adequacy of disclosures, and it is unclear how the IAASB’s proposed change in ED-540 to evaluate their “reasonableness” affects the auditor’s evaluation</li> </ul>	<p>GS. Consider effect for other ISAs regarding change in approach to "reasonable".</p>	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	of material misstatements in accordance with ISA 450. This disparity in terminology runs the risk of the auditor making inappropriate judgments about whether the financial statements are materially misstated. As expressed, we believe the terminology for evaluation of disclosures, if changes are pursued in conjunction with ED-540, needs to be aligned across the ISAs, in particular across ED-540, ISA 450, ISA 700 (Revised) and ISA 705 (Revised).		
GC.97. EYG	To summarize, our primary concern is the use of different terminology across the ISAs as it relates to evaluating disclosures, which we believe will be confusing in practice and may result in inconsistencies in the evaluation of the fair presentation of the financial statements, which would not be in the public interest. We suggest the IAASB consider whether the terms “reasonable”, “appropriate”, and “adequate”, could be equally and consistently replaced throughout the ISAs with the concept of appropriate application of the requirements of the applicable financial reporting framework. Should the IAASB determine that a change is not appropriate across the ISAs at this time, we recommend that the proposed change in the criterion for the evaluation of disclosures related to accounting estimates be reverted to the extant criterion of “adequate”.	[Covered by GC.95 and GC.96 above]	
GC.98. EYG	We note that the auditor’s evaluation of significant assumptions has been emphasized in ED-540 along with a much greater prominence of the auditor’s evaluation of the data used in accounting estimates, which includes introducing a new term of “significant data”.  In ED-540, an explanation that seems to be relevant to both terms is included in paragraph A35. In regard to significant assumptions, the extent to which the variation in the assumption would materially affect the measurement of the accounting estimate is a key criterion, but we believe there	GB. Define "significant assumption" so that the concept is consistently understood and applied in practice. (draw on A35)	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	are further possible considerations relevant to determining whether an assumption is significant. These may include whether the assumption involves unobservable data, or the extent to which the assumption is a source of estimation uncertainty, or the extent the assumption may be susceptible to management bias. Due to the increased prominence of the term “significant assumption” throughout ED-540 and the increased requirements for the auditor to evaluate significant assumptions, we believe that this term should be a defined term in ED-540 so that the concept is consistently understood and applied in practice.		
GC.99. EYG	In regard to significant data, we do not believe that the explanation put forth in paragraph A35 is appropriate. Data sets may inherently have wide variations in them, which does not make the data any more or less “significant”. In our view, the auditor should consider the relevance and reliability of the data used, regardless of its “significance” to the accounting estimate. As a result, we are uncertain what is meant by “significant data” as opposed to the relevant data used in preparing the accounting estimate. We do not believe that management has a choice in data in the same manner that management may have a choice in assumptions and therefore the same definition and evaluation criteria should not apply. In our view, the new concept of “significant data” is not capable of being consistently implemented in practice based on the requirements in ED-540, and therefore we strongly encourage the IAASB to consider whether such a scaled concept for data used in preparing accounting estimates is truly necessary.		GN. Disagree with using term "significant data"
GC.100. EYG	The application material to paragraph 10 has been substantially expanded and enhanced. In light of the IAASB’s concurrent project on ISA 315 (Revised), we encourage consideration of whether some of this new guidance may apply more broadly to risk assessment across the financial		GS. Consideration should be given to whether the new guidance should be in 315 rather than 540.

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	statements (and not just to accounting estimates) and, if so, whether this guidance would be better placed in ISA 315 (Revised). In some respects, it may appear that ED-540 is setting expectations for risk assessment procedures above and beyond what ISA 315 (Revised) may be believed to require. Further, we encourage the IAASB to ensure that there is close coordination between the two projects to reduce the risk of significant conforming amendments to ISA 540 after its revision to accommodate changes in ISA 315 (Revised), to the extent that such changes can be foreseen.		
GC.101. EYG	Paragraph A158 of ED-540 seems to include expectations for documentation that go beyond paragraph 27 of ED-540. We encourage the IAASB to be clear in the requirements of ED-540 as to the documentation expected, even when such documentation may be viewed to fall within the scope of a broader requirement of ISA 230, in order to promote consistency across audits, and in stakeholder expectations, related to audit documentation.		GN. A158 seems to include expectations for documentation that go beyond paragraph 27 of ED-540. Need to be clear in the requirements of ED-540 as to the documentation expected.
GC.102. KPMG	Furthermore, considering the standard cannot provide detailed application guidance with respect to how the requirements apply to the many varied types of accounting estimates, it may be useful if the standard is complemented by non-authoritative guidance dealing with application of the requirements to more specific sophisticated estimates.	GO. Consider developing additional non-authoritative guidance dealing with application of the requirements to more specific sophisticated estimates.	
GC.103. KPMG	The required representation uses terms that may not be defined under the applicable financial reporting framework (and if defined – they may be defined differently than the ED) and may not be well understood by management (e.g. the meaning of “significant data” or “significant assumptions”, as defined in ED-540.A35, or the meaning of the terms “reasonable” and “appropriate” as defined in ED-540.A2-A3);		GN. Concern about the use of “significant data” or “significant assumptions” for management representations.



**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.104. KPMG	With respect to Appendix 1, Measurement Bases of Accounting Estimates, we recommend the IAASB consider removing this content from the standard. The guidance appears to be primarily accounting related, educational in nature, and it is unclear how it interacts with, or complements, the requirements and guidance in the standard itself, which could cause confusion.		GD. Remove <b>appendix 1</b> .
GC.105. PwC	Much of the related guidance that has been added in the application material is very valuable.	GA. General support for application material.	
GC.106. AGNZ	We think that the length of ED-540 makes it difficult for auditors to properly understand and apply. ED-540 is twice as long as the existing Standard, and the application guidance section is considerably longer than the main body.		GD. Concern about amount of AM.
GC.107. AGNZ	Also, ED-540 uses some excessively long sentences, and some vague language, which makes it difficult to understand. For example, paragraph 4 states:  “This ISA focuses the auditor’s attention on designing and performing further audit procedures (including, where appropriate, tests of controls) responsive to the reasons for the assessment given to the assessed risks of material misstatement, particularly when those reasons include complexity, judgment or estimation uncertainty.”  This sentence is confusing. The effectiveness of a standard is dependent on how easy it is to read and understand. In our view, ED-540 fails to meet the “understandability” test.		GD. Need to clarify the language.
GC.108. AGNZ	We are concerned that the large number of possible procedures included in the application guidance section could lead to regulators and reviewers using those procedures as a checklist to “tick off” whether auditors have performed them. One of the stated intentions of the		GD. Concern there are too many illustrative procedures which will lead to a check list approach by regulators and interfere with professional judgment.

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>revisions proposed in ED-540 is to enhance “the auditor’s application of professional scepticism”.</p> <p>We do not think that the inclusion of so many possible procedures gives effect to this intention. Instead, it interferes with the expectation that auditors should apply their own professional judgement and scepticism to each engagement, based on their knowledge and understanding of the business and operating environment of the entity subject to audit.</p>		
GC.109. <a href="#">AGNZ</a>	We also consider some of the paragraphs in the application guidance section to be requirements rather than guidance (for example, paragraphs A96 and A135 ). These paragraphs would be better placed in the main body of ED-540.	<a href="#">GH</a> . Elevate some AM to requirements, e.g. <a href="#">A96</a> and <a href="#">A135</a> .	
GC.110. <a href="#">AGNZ</a>	In addition, there are a number of instances in ED-540 where it is not readily apparent whether the procedures described are required or if they are merely illustrative examples of the types of work an auditor could choose to undertake. An example of this is paragraph A49, which could be interpreted either as a requirement that the internal controls must be tested or as a suggestion that such testing is a possibility.	<a href="#">GB</a> . Clarify in AM whether procedures are required or just examples (e.g. in <a href="#">A49</a> ).	
GC.111. <a href="#">AGNZ</a>	There are also sections that appear to be contradictory. An example is paragraph A97 in the application guidance section, which states “when inherent risk is low, this ISA does not specify the nature of the further audit procedures to be performed”. However, the same paragraph goes on to list a number of procedures in a manner that could be interpreted as suggesting that the auditor is expected to carry them out.		<a href="#">GN</a> . <a href="#">A97</a> appears contradictory.
GC.112. <a href="#">AGNZ</a>	There are also a number of sections that we consider to be unnecessary because they:		<a href="#">GD</a> . Eliminate unnecessary paragraphs. <a href="#">A39</a> - <a href="#">A41</a> , <a href="#">A71</a> , <a href="#">A96</a>

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p><input type="checkbox"/> State the obvious. Paragraphs A39-A41 give examples of types of data, sources of data, and matters that auditors might consider when assessing data. None of these appear to be particularly new, unusual, surprising, or complex. It is our view that concepts such as these are widely understood and do not require specialist accounting or auditing knowledge or expertise.</p> <p><input type="checkbox"/> Discuss fundamental concepts that should be well understood by auditors (and are not specific to auditing estimates). Paragraph A96 states “If the further audit procedures in paragraph 15(a) do not provide sufficient appropriate audit evidence, the auditor is required by ISA 330 to design and perform other procedures.” An experienced or competent auditor should be able to reach the same conclusion without needing to refer to these paragraphs.</p> <p><input type="checkbox"/> Repeat issues already discussed in ED-540. Paragraph A71 states that “Paragraph 13 requires the auditor, in identifying and assessing the risks of material misstatement, to take into account the extent to which the accounting estimate is subject to, or affected by relevant factors, including complexity, the need for the use of judgement by management in making the estimate, and estimation uncertainty.” This essentially summarises and repeats the content of Paragraph 13, without providing any additional guidance.</p>		
GC.113. AGNZ	The two appendices contain even more material that auditors are expected to read, consider, and, where appropriate, apply. It is not entirely clear what the purpose of this extra material is or what value it adds for auditors. Removing these Appendices will not adversely affect the way		GD. Remove the appendices.

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	in which auditors and engagement teams plan and execute their approach to auditing accounting estimates.		
GC.114. <a href="#">AGNZ</a>	<p>The existing ISA 540 contains a paragraph (A11) in the application guidance section, Considerations Specific to Public Sector Entities. This paragraph has been removed in the proposed revision and ED-540 instead has a paragraph at A23, Considerations Specific to Smaller Entities.</p> <p>It is unclear what the purpose of this paragraph is. It permits auditors to tailor their audit approach for smaller entities, but auditors should already be tailoring their approach for all engagements, regardless of the size of the entity. Designing and following an appropriate audit approach enables the auditor to demonstrate that audit judgement has been applied, and that the engagement has been completed in a manner that should meet expected quality standards.</p> <p>The intention for including this paragraph is not clear. ED-540 should identify any specific audit considerations that are unlikely to be relevant to the audit of smaller entities. Conversely, if the expectation is that all audits require the same procedures, regardless of the entity's size, then paragraph A23 adds no value.</p>	<a href="#">GB</a> . Clarify <a href="#">A23</a> or eliminate it.	
GC.115. <a href="#">AGNZ</a>	<p>Application guidance paragraph A69 provides examples of estimates that auditors should be capable of assessing. Paragraph A69 also suggests that other estimates (such as expected credit losses or insurance contract liabilities) would be likely to require auditors to apply specialised skills or knowledge from outside the audit team's collective "experience", implying that auditors are unlikely to be able to audit such figures themselves.</p> <p>We believe that many auditors would have the skills and knowledge required in order to obtain sufficient appropriate audit evidence relating to many accounting estimates that fall between the two extremes cited in paragraph A69. In</p>		<a href="#">GN</a> . Question the guidance in <a href="#">A69</a> re use of specialists.

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<p>particular, there are a number of professional service firms that carry out a range of services. It would seem unusual for them to be able to carry out valuation services on a consultancy basis, but at the same time, not be considered capable of assessing similar estimates in an audit capacity.</p> <p>We foresee a future where auditors are increasingly required to engage an independent auditor's expert to review and/or challenge an estimate that has been developed by an expert engaged by management. We question what added value this approach will provide for users of financial statements.</p>		
GC.116. AGNZ	In our view, ED-540 does not adequately emphasise the importance of appropriate disclosure around accounting estimates. Nor does ED-540 sufficiently clarify the auditor's role in assessing the adequacy of disclosures, in order to form an opinion on fair presentation.	<p><b>GK.</b> Provide more guidance in relation to disclosures.</p>	
GC.117. <b>GAO</b>	While we appreciate the IAASB's efforts to provide an abundance of guidance to assist auditors in applying the standard, we suggest moving the information contained in the appendix to a separate guide or tool to increase the clarity and usability of the standard.		<p><b>GD, GO.</b> Move the <b>appendix</b> to a separate guide.</p>
GC.118. <b>ACCA-CAANZ</b>	The application guidance as drafted is too long and appears to repeat requirements rather than providing additional guidance on those requirements. We are also concerned that listing estimates that may be low or not low inherent risk will potentially cause conflict as some of the examples given will not always fall into the categories they are listed under for all entities. The number of 'low' risks in A72 compared to the number of 'not low' risks in A73 may reinforce the notion that there are always relatively more risks that are not low. In respect of this issue, therefore, we would welcome more guidance in the application material to	<p><b>GB.</b> Add more guidance in relation to <b>A72 and A73</b> to help auditors and regulators understand the IAASB's thinking on categorizing risks.</p>	<p><b>GD.</b> Eliminate guidance that repeats requirements</p>

**ED 540 - Responses referring to application material/guidance – General Comments**

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	help auditors and regulators understand the IAASB's thinking on categorizing risks.		
GC.119. ACCA-CAANZ	Documentation is a key element in audit quality but ED-540 does not really expand on the documentation requirements in the extant standard. Although the additional requirements will require documentation, this point is not addressed in the ED. More precise documentation requirements and application guidance to enable auditors to appropriately and proportionately explain the work they have performed should be included.	GQ. Add more guidance (and more precise requirements) on documentation.	
GC.120. ACCA-CAANZ	The requirements and application material in ED-540 in relation to auditing disclosures of accounting estimates appear very similar to the extant standard. If there is a perceived deficiency in ISA 540, we would expect that there would be new requirements or, if the requirements are sufficient, new application guidance to direct work effort in this area. As the material in ED-540 addressing disclosures is similar to ISA 540, we do not feel it will address the concern in this area. The requirements and guidance need to address not only disclosure of estimates contained in the financial statements but estimates which are only contained in the disclosures.	GK. Provide more guidance on estimates which are only contained in the disclosures.	
GC.121. ABA	<i>[Includes copy of response to PCAOB ED.]</i>	n/a	
GC.122. AE	The introduction explains that accounting estimates are subject to inherent limitations, which means that it is impossible for either preparers or auditors to reduce estimation uncertainty beyond certain limits. This statement should be more explicitly linked to the requirements in the standard, in particular related to the resulting challenge for preparers and the auditor in relation to such measurement uncertainty.	GI. Link explanation that accounting estimates are subject to inherent limitations more explicitly to the requirements.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.123. AE	Whilst helpful, the application material is lengthy and reads like implementation guidance. It might be seen as excessive in comparison with application and other explanatory material in other ISAs; the IAASB might consider whether it would be better supplied in another form outside of the standard to auditors who wish to have a comprehensive reference, i.e. perhaps in the form of an International Auditing Practice Note (IAPN), particularly for the aspects of the explanatory material that are linked to the financial sector.		GD, GO. Consider moving/providing guidance outside the standard
GC.124. AE	We welcome the IAASB's supplement to proposed ISA 540 (Revised) , which illustrates the work effort requirements. It explains the reasoning behind paragraphs 13-23 of the Exposure Draft (ED-540) and thus facilitates the understanding of the requirements. The IAASB should consider including this flowchart as an appendix to the revised standard.	GB. Consider including the flowchart as an appendix.	
GC.125. AICPA	we strongly recommend that the IAASB reconsider the proposed approach of having two separate paths of addressing risks of material misstatements for estimates. We believe ED 540 should include an approach similar to extant ISA 540—that is, to test all accounting estimates within the context of the focused areas of risk (complexity, judgment, and uncertainty), scaled to clearly explain that as the risks of material misstatement increases, the auditor would be required to obtain more persuasive audit evidence. The application material could then further explain the challenges of auditing more complex accounting estimates such as those recorded under the expected credit loss model, including specific considerations where judgement could be affected by management's bias, and so on.		GN. Believe application material should address a different approach to that in the ED.

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GC.126. AICPA	Finally, we recommend that several of the concepts in the appendix be reconfigured as an International Auditing Practice Note (IAPN) that could be issued to provide more detailed guidance to assist in the implementation of the revised ISA.		GD, GO. Move guidance outside the standard to an IAPN
GC.127. CAI	We consider that the standard should remain principles based and applicable to any accounting estimate. It may therefore be necessary for IAASB to develop separate guidance in relation to the application of those principles to specific accounting estimates for example in the format of International Auditing Practice Notes (IAPNs).		GO. Develop separate guidance in relation to the application of the principles to specific accounting estimates e.g. as an IAPN
GC.128. CAQ	<i>[Includes copy of long response to PCAOB ED.]</i>	n/a	
GC.129. CPAA	We consider that clarity and understandability of the standard is hampered by its length, wordiness and the presence of some duplication. We would suggest that to avoid the lengthy and overly prescriptive requirements, as for example is the case with paragraphs 17, 18 and 19, some of the content is moved to application material, and the wording is made more concise in both the requirements and the application material.		GD. Move some requirements to AM and aim to make the AM more concise.
GC.130. CRUF	<p>Firstly, we agree with paragraphs 21 (a) and A135 through A138 of ED-540 and would like to comment on these paragraphs from a viewpoint of users of financial information, such as investors and analysts.</p> <p>Modern financial reporting frameworks require preparers to make accounting estimates using financial models and forward-looking information. Under this situation, it is very important for the users making investment decisions to correctly understand the model and the assumptions used by preparers, and the extent to which accounting estimates are subject to estimation uncertainty. We believe that such</p>	GA. Support for A135-A138.	



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	<p>information should be provided through financial statements footnotes at sufficient level, however we note that some financial reporting frameworks do not regulate specific disclosure requirements at that level. Therefore, from a user's standpoint, we need paragraphs 21 (a) and A135 through A138 of ED-540 which require auditors to request additional disclosures (beyond those specified in the relevant financial reporting framework) when necessary to achieve fair presentation of the financial statements as a whole under that framework. We also believe that sufficient disclosures related to accounting estimates are essential for effective auditor's communication of key audit matters to the users.</p>		
GC.131. CRUF	<p>Secondly, we agree with paragraph 26, A155 and A156 of ED-540 and would like to comment on the paragraph from a viewpoint of the users of financial information.</p> <p>It is considered that users such as investors and analysts will seek more opportunities to request explanations on accounting estimates and key audit matters thereof as a result of the introduction of key audit matters and the revision of ISA 540. Because auditors bear confidentiality requirements, the users will firstly contact those charged with governance instead of auditors. In order for such users' discussions with those charged with governance to be effective, it is an essential prerequisite that those charged with governance discuss accounting estimates and key audit matters thoroughly with auditors. When the auditors discuss with the those charged with governance, we believe that the auditors need to be mindful that their ultimate clients are the users of financial statements rather than the company. Therefore, it is important for the auditors to grasp the needs and interests of the users through the discussion. As users we rely on auditors to be sceptical and challenge management accordingly. For example, while an estimate may be within an acceptable range, the auditor should</p>	GA. Support for A155 and A156	

**ED 540 - Responses referring to application material/guidance – General Comments**

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	consider whether that estimate is at the most appropriate point within the range in the circumstances.		
GC.132. ICAEW	<p>Despite an absence of guidance, expectations of both preparers and auditors are high, in terms of the ‘accuracy’ of the forecasts and projections underpinning many estimates. Banks and others moving to the ECL model are struggling with the transition. It is not easy for any preparer to develop an estimate involving projections 40 years hence, and principles relating to the disclosure of uncertainties, based on a sound knowledge of the business, backed up by subsequent validation where short terms assumptions are projected forward, would be helpful to preparers and their auditors.</p> <p>IAASB cannot resolve this issue but it might acknowledge it in the introductory information to ISA 540. ...</p>	GB. Acknowledge in the Introductory information the difficulties in developing some estimates.	
GC.133. ISCA	the IAASB could provide further guidance on the extent of documentation required for the auditor to demonstrate the work done on the requirements in paragraph 10 of ED-540.	GQ. More guidance on documentation to demonstrate the work done on the requirements in paragraph 10	
GC.134. ISCA	<p>In executing audit procedures such as testing for goodwill impairment where a high level of estimation uncertainty is involved, it is unclear whether the assessment of the risk factors relating to estimation uncertainty should be influenced by whether the accounting estimate is eventually recognised in the financial statements. (Ref: Paragraph 10(c) of ED-540).</p> <p>The key assumptions such as revenue and growth rates which involve a high level of judgement and estimation typically will not directly impact the entity’s financial statements, unless an impairment loss is eventually recorded.</p>	GB. Provide more guidance for where there is a high level of EU.	

**ED 540 - Responses referring to application material/guidance – General Comments**

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	We are of the view that a high level of estimation uncertainty exists in such cases, even though the accounting estimate may not be eventually recognised in the financial statements. We seek the IAASB to provide further clarification and guidance in this area.		
GC.135. ISCA	<p>The IAASB could consider highlighting that a retrospective review could constitute both a risk assessment and substantive audit procedure.</p> <p>More clarity and guidance could also be provided in ED-540 on the auditor's next steps, for instance, the nature and extent of further audit procedures to be performed following the outcome of the retrospective review.</p>	<b>GB.</b> Provide more guidance on the nature and extent of further audit procedures to be performed following the outcome of the retrospective review.	
GC.136. ISCA	<p>In addition, the IAASB could clarify if paragraph 11 of ED-540 on retrospective review would apply in the following scenarios:</p> <ul style="list-style-type: none"> <li>estimates with low inherent risk;</li> <li>estimates for which the outcome of the initial estimate may become known during the audit such as bonus accrual; and</li> <li>where the auditor had already performed procedures in relation to paragraph 10(e)(vii) of ED-540 with a satisfactory conclusion on management's process over the need for a change in accounting estimates from the prior period</li> </ul>	<b>GB.</b> More guidance in relation to the retrospective review and applicability in particular scenarios.	
GC.137. ISCA	With reference to paragraph A75 of ED-540, it is unclear if, estimates for which the outcome is expected to be known, are within scope of this ED-540, and accordingly, if the requirements in paragraphs 10 and 15-20 of ED-540 would apply. One such example would be where the auditor obtains sufficient appropriate audit evidence for bonus accrual, referred to in paragraph A72, by vouching to actual	<b>GB.</b> Clarify whether estimates for which the outcome is expected to be known are within scope. [ <i>Their view is that they are not on the basis there is no estimation uncertainty.</i> ]	

**ED 540 - Responses referring to application material/guidance – General Comments**

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	<p>payouts and the relevant supporting documents prior to audit report date.</p> <p>In our view, the IAASB could enhance clarity by specifying in ED-540 that such estimates, for which the outcome is expected to be known during the audit, are not within the scope of the standard, since there is no element of estimation uncertainty.</p>		
GC.138. NASBA	We also recommend either adding additional guidance in the current IAASB proposal or providing an explicit linkage to the auditing guidance on use of specialists.	GB. Provide more guidance on use of specialists or add an explicit link.	
GC.139. NASBA	We recommend including additional application guidance on auditing internal controls and management's process of developing estimates.	GE. Provide more guidance on auditing internal controls and management's process of developing estimates.	
GC.140. SAICA	<i>[Includes long feedback on results of field testing.]</i>	n/a	
GC.141. SAICA	... It was however suggested that paragraphs A139 – A141 be clarified by specifically stating that the auditor should 'stand back' and evaluate the audit evidence obtained regarding the accounting estimate.	GB. Clarify A139-A141 - stating that the auditor should 'stand back' and evaluate the audit evidence obtained regarding the accounting estimate.	
GC.142. SAICA	Most of the survey respondents agreed that the requirement in paragraph 27 and the related application material will result in consistent documentation of the basis for the auditor's evaluation of the reasonableness of accounting estimates.	GA. Support for AM to para 27.	
GC.143. SAICA	With respect to the documentation requirements pertaining to the auditor's evaluation of management bias, paragraph A159 is narrow in referring only to the examples in paragraph A147. We believe that the reference should be more holistically to the requirement in paragraph 24, which	GB. Amend A159 to refer more holistically to the requirement in paragraph 24.	

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	will be aligned to the approach adopted in paragraph A158 that refers to paragraphs 17 – 21 and 22 – 23.		
GC.144. SAICA	Most of the survey respondents agreed that the application material is sufficient in extent and content to provide meaningful guidance in enhancing the auditor's understanding of the requirements and how to carry these requirements out.	GA. General support for the guidance.	
GC.145. SAICA	One survey respondent suggested that it may be useful to expand the application material further to include more practical examples that will illustrate the practical application of the requirements.	GB. Provide more practical examples.	
GC.146. SAICA	The field testing respondents also agreed and believed that the application material is vital in understanding the ED.	GA. Strong support for the guidance.	
GC.147. SAICA	SAICA agrees that the application material is comprehensive and most helpful. We have included a few suggestions in terms of the possible expansion of application material in certain areas as part of our responses to the other questions in this comment letter.	GA. General support for the guidance.	
GC.148. SAICA	There was a particular comment from the survey respondents that more guidance should be considered for the audits of smaller entities where accounting estimates may be less complex.	GJ. Provide more guidance for smaller entities.	
GC.149. SAICA	Extant ISA 540.A67: We believe that the matter relating to a longer period between the balance sheet date and the date of the auditor's report is a characteristic that is specific to smaller entities and relevant in considering the audit evidence for certain accounting estimates. We request that the IAASB consider retaining this guidance.	GJ. Reinstate extant A67 for smaller entities.	

**ED 540 - Responses referring to application material/guidance – General Comments**

General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
GC.150. SAICA	Extant ISA 540.A106: This paragraph includes, among other, the following guidance that has not been retained in the ED, "... the auditor may explain to management the process or the different methods available for doing so, and the documentation thereof. This would not, however, change the responsibilities of management for the preparation of the financial statements." The circumstance described here is a reality of practice in dealing with many smaller entities. We are not sure why the IAASB has decided not to retain this as part of the guidance; we had considered that the decision may relate to a possible conflict with independence requirements in the Code of Professional Conduct.	GJ. Reinstate extant A106 for smaller entities.	
GC.151. SAICA	SAICA comment: Although the ED does not include requirements specific to significant risks as is the case in extant ISA 540, the manner in which significant risks are referred to in paragraphs 13 and 15, and the related application material in paragraphs A76 – A77 and A94 – A95, are adequate.	GA. Support for A76 – A77 and A94 – A95 and that they are adequate for significant risks.	
GC.152. SAICA	Most of the field testing respondents indicated that it is difficult to determine a point estimate or range. The factors to be considered in identifying the range required is not clear and guidance and examples are required. Previously paragraph A94 of the extant ISA was used that permitted a range equal/less than performance materiality.	GL. More guidance in relation to auditor's PE or R.	
GC.153. SAICA	Another field testing respondent suggested that the detailed application guidance relating to the disclosures should be included in the main standard to clarify the auditor's objectives related to disclosures. It is suggested that the following matters relating to risks of material misstatement of disclosures be clearly articulated: <ul style="list-style-type: none"> <li>• understanding of the process to calculate disclosures,</li> </ul>	GK. More guidance/clarity about the auditor's objectives related to disclosures.	

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	<ul style="list-style-type: none"> <li>identification of risks of material misstatement related to disclosures, and</li> <li>the work effort related to disclosure risks.</li> </ul>		
GC.154. SAICA	Two respondents commented that guidance should be provided on how to perform and document the stand-back provision.	GB, GQ. More guidance on how to perform and document the stand-back provision	
GC.155. SAICA	One field testing respondent however commented that the determination of reasonable vs. not-reasonable (i.e. misstated) could be clearer, especially where assumptions are highly sensitive.	GB. More clarity re determination of reasonable vs. not-reasonable (i.e. misstated)	
GC.156. SAICA	One field testing respondent commented that there is a need to clarify at which level these detailed communications [WTCWG] should take place.	GB. Clarify at which level these detailed communications [WTCWG] should take place.	
GC.157. SAICA	A suggestion was made to include some of the detail in paragraph A158 in the requirements section of the standard.	GH. Elevate some of A158 to requirements	
GC.158. GC	<p>it is our opinion that ED-540 appropriately addresses several key topics:</p> <ul style="list-style-type: none"> <li>ED-540 provides guidance to auditors on how to reconcile estimation uncertainty with quantitative materiality (A2, A134, A142-A146).</li> <li>ED-540 gives auditors explicit steps to address and respond to estimation uncertainty (Paragraph 19 of the standard, as well as A113-A134).</li> <li>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).</li> </ul>	GA. Support for A2, A46, A92, A109, A113-A134, A136, A142-A146	

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General comments	Comments extract	More (new or change) or supportive comment	Less (delete or change) or negative comment
	<ul style="list-style-type: none"> <li>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).</li> </ul>		
GC.159. GC	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 accumulation of uncertainty would affect auditors' opinion on the financial statements taken as a whole.	GB. Consider how multiple instances of large estimation uncertainty accumulate to summary measures such as earnings per share, and how this accumulation of uncertainty would affect auditors' opinion	
GC.160. NDEG	It is important that, to avoid unintended confusion, terminology be applied consistently throughout the ISA. For example, paragraph 3(c)(ii) continues to use the term "appropriate" in relation to management's selection of a point estimate and disclosures. This is unhelpful given that the term "reasonable" is used in the context of the same matters in the "Objective" of the ISA.		GN. Concern about inconsistency in use of "reasonable" and "appropriate"
GC.161. NDEG	The language used in paragraph 10(f) seems to imply that there is some separate consideration of internal control specific to accounting estimates, beyond what is required in ISA 315. We suggest that, with the concurrent revision of ISA 315, it may be appropriate for additional guidance to be added to that Standard to better explain key considerations relating to accounting estimates. However, we are not proposing a wholesale relocation of paragraph 10 to ISA 315, as we acknowledge the established structure adopted in developing these "subject-matter" specific ISAs is to address the end-to-end audit process.	GS. It may be appropriate for additional guidance to be added to ISA 315 to better explain key considerations relating to accounting estimates.	



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GC.162. NDEG	Paragraph A95 includes a statement that the ISA does not imply or require a separate assessment of inherent risk. In light of the paragraph 15(a) requirement this statement is factually incorrect.		GN. Believe A95 to be factually incorrect.