

Agenda Item 2-C

Analysis of Responses to Question 4 of the Exposure Draft

Section I: Question included in Exposure Draft

1. The following question was asked in the exposure draft:
 - 4) *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?*

Section II: Staff Analysis of Respondents' Views¹

Monitoring Group Responses

2. A summary of the responses from Monitoring Group members' responses related to risk factors, the structure of ED-540, and the application material is included in the Appendix.

Section II-A: Risk Factors

General Observations

3. In identifying and assessing the risk of material misstatement, many respondents supported the three risk factors (complexity, judgement and estimation uncertainty) included in Exposure Draft of Proposed ISA 540 (ED-540).^{2 3}

¹ In this paper the following terms have been used:

- "A respondent" = 1;
- "A few" = 2–3;
- "Some" = 4–6;
- "Several" = 7–11;
- "Many" = 12–34;
- "Majority" = more than 50%; and
- "Significant majority" = greater than ~80%.

² Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³ *Regulators:* EBA, ESMA, **IAIS**, **IFIAR**, IRBA, UKFRC, *NSSs:* AUASB, CAASB, HKICPA, JICPA, *Firms:* EYG, CEAOB, CHI, DTT, PKF, SRA, NZAuASB, *Member Bodies:* AE, ANAN, IAAA, ICAEW, ICAG, ICAS, ICAZ, SAICA, SMPC, *Public Sector Organization:* ACAG, AGA, AGC, CIPFA, INTOSAI, PAS, *Individuals & Others:* CYGNUS

4. There were mixed views as to whether the response to the assessed risk of material misstatement should be based around each risk factor. Respondents who supported the approach taken by the Board generally did not elaborate why they supported it.⁴ On the other hand, respondents who did not support the Board's approach provided many reasons why the response to the assessed risk of material misstatement should not be based around each risk factor.
5. Of the Monitoring Group members the Basel Committee on Banking Supervision (Basel Committee) and International Association of Insurance Supervisors (IAIS) were generally supportive of basing the response to the assessed risk of material misstatement on the risk factors. On the other hand International Organization of Securities Commissions (IOSCO) noted significant concerns with the approach taken, while International Forum of Independent Audit Regulators (IFIAR) was of the view that the proposals are 'a step in the right direction'.

Comments Received on the Risk Factors

6. The following suggestions were received on the risk factors:
 - Make a clearer linkage between paragraph 10 (Risk Assessment) and the three factors in paragraph 13 (identifying and assessing the risk of material misstatement).⁵
 - Clarify whether estimates can only be assessed as low inherent risk where none of the risk factors are relevant or whether another basis for concluding on low inherent risks is appropriate.⁶
 - The risk factors are present in all accounting estimates so the standard should focus on the extent of the factors and not its existence.⁷
 - Estimation uncertainty is present in all accounting estimates and should therefore likely be relevant in the identification and assessment of risks of material misstatement and related further procedures.⁸
 - The factors may need to be revised because of the revision of ISA 315 (Revised).^{9 10}
 - It was questioned whether the right factors were chosen and a recommendation was received to select the following three factors:¹¹
 - Access to data and assumptions;
 - Subjectivity; and

⁴ *Regulator: IAIS, CEAOB NSSs: NZAuASB, Public Sector: ACAG, AGA, AGC, CIPFA, INTOSAI, PAS, Member Bodies: IAAA, ICAG, ICAS, ICAZ, Individuals & Others: CYGNUS, Firms: PKF, SRA*

⁵ *Individuals & Others: NDEG, Firms: PWC*

⁶ *Regulators: IFIAR*

⁷ *Regulators: IAIS, NSS: NBA*

⁸ *Firms: DTT*

⁹ *NSSs: IDW*

¹⁰ *ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹¹ *NSSs: NBA*

- Complexity of the calculation.
- Calls for additional application material to explain:
 - Whether estimation uncertainty should be considered more prominently;¹²
 - Whether it is possible to identify risk factors but still conclude that inherent risk is low;¹³
 - How the risk factors relate to the different components of an accounting estimate (data, assumptions, model/method).¹⁴

Risk Factors Other than Complexity, Judgement and Estimation Uncertainty

7. Several respondents commented on risk factors other than complexity, judgement and estimation uncertainty. The comments received included:
- It was questioned which procedures the practitioner should perform when the inherent risk is 'not low' because of a factor other than complexity, judgement and estimation uncertainty.¹⁵
 - More emphasis should be placed on risk factors other than complexity, judgement and estimation uncertainty.¹⁶
 - It was suggested to include more application material that explains that there may be other factors than complexity, judgement and estimation uncertainty; and¹⁷
 - It was suggested to expand the regulatory factors in paragraph A78.¹⁸

The Risk Factors in Work Effort

8. Many respondents cited reasons why it would be difficult to determine the appropriate response to the three risk factor requirements in the response to the assessed risk of material misstatement. For example, it was noted that the distinction between the factors is artificial and practitioners will not be able to connect the work effort to each factor.¹⁹ As a result, the auditor might not be able to adequately address the risk of material misstatement at the assertion level.²⁰ Others noted that the factors are unnecessarily complex and do not take into account the approach that is taken in practice, being the three testing strategies in paragraph 15(a).²¹ It was also noted that the focus on the risk factors, may result in not obtaining a holistic view of the accounting estimate.²²

¹² *Firms:* GTI

¹³ *Firms:* GTI

¹⁴ *Firms:* KPMG

¹⁵ *Regulators:* IOSCO, IRBA, *Member Bodies:* SMPC

¹⁶ *Firms:* DTT

¹⁷ *Firms:* GTI

¹⁸ *Member Bodies:* SMPC

¹⁹ *NSSs:* CNCC-CSOEC, *Member Bodies:* ICAEW, SMPC, *Firms:* PWC,

²⁰ *Individuals & Others:* NDEG, *Firms:* PWC

²¹ *Firms:* EYG, *Member Bodies:* ISCA, *NSSs:* CAASB

²² *Member Bodies:* AICPA

9. Of the monitoring group members, IOSCO had significant concerns with the approach taken and noted that ‘the Board should consider whether paragraph 14-20 may be overly complex, unclear, and consequently could result in inconsistent application by auditors.
10. Respondents noted the following reasons why the risk factors should not be used in the response to the assessed risk of material misstatement:
 - o The interrelationships between the risk factors – see next paragraph;
 - o The nature, timing and extent of the audit procedures should be based on the risk of material misstatement at the assertion level and financial statement level and not on the risk factors as the factors are not ‘what could go wrong’. A few respondents were of the view that the factors should be considerations, consistent with the approach in ISA 240²³ and the approach taken by the Public Company Accounting Oversight Board.²⁴
 - o The approach taken in ED-540 could lead to a complicated matrix approach to documenting identified risks, with a combination of assertions and risk factors.²⁵
 - o Paragraphs 17-19 of ED-540 may be viewed as limiting further audit procedures only to risks of material misstatement that result discretely from the three factors, given the construct of the paragraphs and the seemingly narrow focus of each one.²⁶

Interrelationship between Risk Factors

11. With respect to the interrelationships between the risk factors and the effect that may have, respondents were of the view that either more guidance is needed to explain the interrelationships,²⁷ or that the interrelationships make it challenging to determine the appropriate response to the assessed risk of material misstatement.²⁸
12. Several respondents²⁹ noted that categorizing responses into three discrete risk factors is not consistent with management’s process for making estimates. Often management considers accounting estimates more in terms of data, assumptions and methods / models. It was noted that the potential inconsistency between how management determines accounting estimates and how the auditor is asked to audit those estimates could be problematic as the auditor may ask management to provide information for audit purposes that management has not considered as part of its own process. In addition, it was noted that the compartmentalization of the three risk factors is complicated as they are often integrated and overlapping. For example, complexity is often a factor raising or lowering estimation uncertainty, and the application of significant judgement from management may be the response thereto.

²³ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁴ NSSs: AUASB, *Member Bodies*: IBRACON, *Individuals & Others*: NDEG, *Firms*: PWC

²⁵ *Member Bodies*: AICPA, *Individuals & Others*: NDEG, *Firms*: PWC

²⁶ *Firms*: DTT

²⁷ *Regulators*: UKFRC, ICAP, *NSSs*: JICPA

²⁸ *Firms*: CHI, DTT, EYG, GTI, *Member Bodies*: SMPC,

²⁹ *NSSs*: AUASB, CAASB, NBA, NZAuASB, *Member Bodies*: CPAA, ICAEW, NASBA, *Firms*: BDO, EYG, GTI

13. It was also noted that:
- The risk factors are often not sufficiently separable to guide an effective audit approach.³⁰
 - It is difficult to distinguish between factors as in most cases two or three factors are present.³¹
 - The driver of the risk of material misstatement is estimation uncertainty. Complexity and judgment are related to this factor.³²
 - Estimation uncertainty and judgement are closely related.³³
 - In some instances, management bias is linked to the risk factor judgment and in other cases it is mentioned separately.³⁴
14. One monitoring group member noted that given the difficulty in distinguishing between the three risk factors, auditors may default to addressing all the testing objectives in paragraphs 17-20. In that case, they may be confused by the seemingly overlapping nature of some testing objectives. The monitoring group member highlighted specific areas in which they questioned why certain procedures were required for one factor but not for another. For example:³⁵
- Why data testing would not be relevant for all accounting estimates;
 - Whether management's understanding of significant data (paragraph 17(c)) would also not apply to judgement;
 - Whether the complex modelling (requirement 18(c)) would also apply to complexity;
 - Whether requirement 18(a) (iii) should also include significant data.

Section II-B: Structure of the Standard

15. Many respondents commented on the structure of ED-540. It was noted that the structure is:
- Unclear and not intuitive;³⁶
 - Complex;³⁷ and
 - Not sufficiently objective based, too granular/ prescriptive.³⁸

These comments mainly related to the work effort paragraphs; paragraph 15-20.

³⁰ *Regulators: IOSCO, Firms: DTT*

³¹ *Firms: BDO, CHI, , Member Bodies: SMPC*

³² *Regulators: IOSCO, Member Bodies: ACCA-CAANZ, ICAS*

³³ *Firms: GTI*

³⁴ *Member Bodies: CPAA, ICAEW, SMPC, NSSs: NBA, , Firms: BDO*

³⁵ *Regulators: IOSCO*

³⁶ *Regulators: IOSCO, Firms: DTT, EYGPWC, Member Bodies: CAASB, CPAA, MAASB, Individuals & Others: NDEG,*

³⁷ *Firms: DTT, KPMG, Public Sector: AGC, AGNZ, Member Bodies: ACCA-CAANZ AICPA, ICEAW,*

³⁸ *NSSs: NZAuASB, Firms: GTI, Member Bodies: EFAA, SMPC, Public Sector: AGC*

16. As a result the standard may:
- o Be difficult to apply in practice;
 - o Lead to inconsistencies in application and interpretation;
 - o Drive a checklist mentality; and
 - o Result in less professional judgement and professional skepticism.
17. With respect to the structure of the work effort section respondents noted that:
- o The testing strategies for low inherent risk accounting estimates, as included in paragraph 15(a), are applicable to all accounting estimates, including those with an inherent risk that is not low.³⁹
 - o On the other hand, the testing objectives in paragraph 17-20 may also be applicable for estimates with low inherent risk.⁴⁰
 - o Certain testing objectives in paragraph 17-20 are not always related to a single risk factor (e.g. certain testing objectives for complexity may also be applicable for judgement).⁴¹
 - o It will cause significant increase in work effort (without improving audit quality).⁴²
 - o It was not clear how to apply para 17-19 to subsequent events testing and developing a point estimate or range.⁴³ It was noted that subsequent events testing may be particularly useful for some low risk estimates,⁴⁴ and that if the outcome is known at the date of the report, then the required understanding in paragraph 10 should be minimal.⁴⁵
18. Respondents therefore suggested several improvements to the work effort:
- o To make the identification, assessment and response to risks of material misstatement more intuitive for the auditor, as well as to be consistent with how management makes the estimate and how audit evidence is available, several respondents were of the view that ED-540 could describe relevant risk factors for an estimate based on how they relate to the different components of the estimate (i.e. data, assumptions and methods/models).⁴⁶
 - o The objectives-based requirements in paragraphs 17-19 could be conflated into a single list focused on the underlying components of accounting estimates (i.e., method, significant data, significant assumptions, model) accompanied by appropriate evaluations of estimation

³⁹ *Regulators: IOSCO Firms: BDO, DTT, EYG, GTI, KPMG, PWC Member Bodies: AICPA, ICAEW, Individuals & Others: NDEG,*

⁴⁰ *Regulators: IOSCO Firms: DTT, EYG, , PWC Member Bodies: CAQ, Individuals & Others: NDEG,*

⁴¹ *Regulators: EYG, PWC, Member Bodies: CAQ, Individuals & Others: NDEG,*

⁴² *Member Bodies ACCA-CAANZ, AE*

⁴³ *Firms: GTI, KPMG, PWC*

⁴⁴ *Member Bodies: IBRACON, Individuals & Others: NDEG*

⁴⁵ *Firms: KPMG*

⁴⁶ *Firms: DTT KPMG, EYG, PWC, Member Bodies: AICPA, ICAEW, Individuals & Others: NDEG, ,*

uncertainty that arise from these underlying components.⁴⁷ The testing objectives in paragraph 17-19 could be moved to the application material;⁴⁸

- Subsequent events testing should be included more prominently.⁴⁹
 - Paragraph 20 (requirements when developing an auditors range) should apply whenever a range is developed.⁵⁰
 - Enhance the identification of the risks of material misstatement (paragraph 13) such that the further audit procedures are responsive and result in sufficient appropriate audit evidence. Paragraph 13 and related application material should also make it more clear that for difficult or complex accounting estimates, there will likely be more risks of material misstatement and also that they are likely to be assessed as higher or significant. For simple accounting estimates, there will be fewer risks of material misstatement and they may be assessed as lower or low.⁵¹
19. One monitoring group member asked the Board to consider whether all (or a subset of) testing objectives in paragraphs 17-20 should be required to be met for all accounting estimates, irrespective of the reason for the assessment of their inherent risk as 'low' or 'not low' risk, and whether or not the auditor places reliance on controls. Under this approach, auditors would respond to the assessed risks of material misstatement by varying the nature, timing, and extent of the further audit procedures performed in response to the defined testing objectives.⁵²

Section II-C: Application Material

20. Many respondents noted that sufficient guidance is included in the ED-540.⁵³ Some respondents were of the view that too much guidance is included,⁵⁴ while others, also respondents that were of the view that sufficient guidance was included in ED-540, came up with areas where further guidance would be useful.
21. In addition to the areas highlighted in section II, III and IV, respondents identified the following areas where further guidance could be useful:
- Include the flow chart;⁵⁵
 - Complex estimates;⁵⁶

⁴⁷ Regulators: **IOSCO** Firms: EYG, Member Bodies: AICPA, ISCA, Public Sector: GAO,

⁴⁸ Member Bodies: ICAEW, KICPA

⁴⁹ Member Bodies: AICPA, Firms: GTI, PWC, Individuals & Others: NDEG,

⁵⁰ Firms: EYG

⁵¹ Firms: DTT

⁵² Regulators: **IOSCO**

⁵³ NSSs: HKICPA, Public Sector: ACAG, AGA, AGC, CIPFA, INTOSAI, PAS, ,Member Bodies: ICAG, ICAP ICAZ, Individuals & Others: CYGNUS, Firms: RSM

⁵⁴ NSSs: AUASB, IDW, NZAuASB, Member Bodies: KICPA,

⁵⁵ Regulators: **BCBS**, NSSs: AUASB, CAASB, NBA, NZAuASB, Member Bodies: AE, EFAA, IBR-IRE ICAEW, SMPC, , Firms: RSM,

⁵⁶ Regulators: **BCBS**, ESMA, Member Bodies: CAI, NASBA, Investors & Analysts: CFA, Firms: KPMG,

- Internal controls, for example by including paragraph 95 of IAPN 1000;^{57 58}
 - Specialized skills and knowledge;⁵⁹
 - Forward looking information;⁶⁰
 - Simple estimates. It was suggested to delete the ‘considerations for smaller and medium sized entities’ section and instead include guidance on how to audit simple accounting estimates;⁶¹
 - The extent of further audit procedures and how to respond if more than one factor is present;⁶²
 - How the auditor assesses an accounting estimate’s sensitivity;⁶³
 - How the criteria in paragraph 20 are met;⁶⁴
 - Matters to consider when changes are made to the financial reporting framework;⁶⁵
 - Leveraging on the work carried out in other ISAs (ISA 240/ ISA 250);^{66 67}
 - Stress testing, by the auditor, of inputs to a model/method;⁶⁸
 - Work effort that is required when a significant risk of material misstatement is identified;⁶⁹ and
 - Include paragraph 26(d) and 28 from the Explanatory Memorandum in the application material.⁷⁰
 - When the auditor is unable to obtain sufficient appropriate audit evidence on management’s point estimate;⁷¹
22. Respondents that were of the view that too much guidance was included noted a number of paragraphs within ED-540 that contain unnecessary content because it:
- States the obvious;
 - Is educational in nature;

⁵⁷ *Regulators: BCBS, CEAOB, UKFRC , Member Bodies: NASBA*

⁵⁸ *International Auditing Practice Notes (IAPN) 1000, Special Considerations in Auditing Financial Instruments*

⁵⁹ *Investors & Analysts: CFA, Regulators: ESMA, Member Bodies: NASBA*

⁶⁰ *Regulators: EBA, BCBS, Member Bodies: ICAEW*

⁶¹ *Member Bodies: AICPA*

⁶² *Regulators: BCBS*

⁶³ *Regulators :ESMA*

⁶⁴ *NSSs: HKICPA*

⁶⁵ *NSSs: HKICPA*

⁶⁶ *Regulators: ESMA*

⁶⁷ *ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶⁸ *Regulators: IRBA*

⁶⁹ *Firms: BDO*

⁷⁰ *Member Bodies: AICPA*

⁷¹ *Regulators: IOSCO*

- Discusses fundamental concepts which should be well understood by the auditor and are not specific to auditing accounting estimates; or
 - Repeats issues already addressed in the exposure draft.
23. Respondents highlighted several paragraphs in the application material, or parts thereof, that should be moved to the requirements:
- A73, examples of accounting estimates for which the inherent risk may not be low;⁷²
 - A78, other relevant factors that the auditor may consider in identifying and assessing the risks of material misstatements;⁷³
 - A96, when the further audit procedures in paragraph 15(a) do not provide sufficient appropriate audit evidence;⁷⁴
 - A98, when the auditor intends to rely on relevant controls or substantive procedures alone cannot provide sufficient and appropriate audit evidence;⁷⁵
 - A101, consideration of other available valuation concepts, techniques or factors, types of assumptions or sources of data that, in the circumstances, might have been more appropriate or more generally accepted;⁷⁶
 - A105, understanding or interpreting data;⁷⁷
 - A120-A123, disclosures that may be required by the applicable financial reporting framework and matters that may be relevant in obtaining sufficient appropriate audit evidence about the reasonableness of management's point estimate and related disclosures;⁷⁸ and
 - A126; auditor requesting management to consider alternative assumptions or to provide additional disclosure relating to estimation uncertainty in cases when the auditor believes that management has not appropriately understood or addressed estimation uncertainty.⁷⁹
24. One respondent note that the relationship between paragraph 13, 15 and 17-20 is not clear.⁸⁰

⁷² *Regulators:* **BCBS**, EBA

⁷³ *Regulators:* **BCBS**, EBA, *NSSs:* HKICPA

⁷⁴ *Public Sector:* AGNZ

⁷⁵ *Regulators:* ESMA

⁷⁶ *Regulators:* ESMA, UKFRC

⁷⁷ *Regulators:* UKFRC

⁷⁸ *Regulators:* EBA, ESMA, UKFRC

⁷⁹ *Regulators:* ESMA, UKFRC

⁸⁰ *NSSs:* MAASB

Section II-D: Other Comments

Significant Risk

25. A few respondents, including one Monitoring Group member, supported moving away from requirements that respond specifically to significant risk⁸¹ while one respondent cautioned that an unintended consequence might be that auditors cease to identify significant risks over accounting estimates, since an identified risk no longer meets the definition of a significant risk as defined in paragraph 4(e) of ISA 315 (Revised).⁸²
26. Other comments on the role that significant risk plays in ED-540 include that:
- In paragraph 13 reference is made to significant risks but the concept of significant risk does not come back in paragraph 15, which focusses on low, not low inherent risk. Some respondents deemed this to be inconsistent with ISA 315 (Revised) and ISA 330.⁸³ These respondents suggested to provide more guidance/ clarification.⁸⁴ One respondent noted support for not requiring procedures for significant risk.⁸⁵
 - More guidance would be useful on determining significant risk.⁸⁶
 - The standard does not provide sufficient guidance what the auditor should do when a significant risk is identified.⁸⁷
 - There could be a stronger link established between an inherent risk that is not low and a significant risk.⁸⁸

Specialized Skills and Knowledge

27. A few respondents commented on the paragraphs within ED-540 that deal with using specialized skills and knowledge (paragraph 14 and 16). One respondents was of the view that there is too much focus on using specialized skills and that it would be better to include a reference to ISA 620,^{89,90} while others highlighted the importance of paragraph 14 and 16.⁹¹ Others suggested to merge the two requirements into one overall requirement,⁹² or did not support a separate requirement at the risk assessment stage as the auditor should be able to evaluate the risks of material misstatement.⁹³

⁸¹ *Regulators: IFIAR, Member Bodies: ICAEW, Individuals & Others: NDEG*

⁸² *Firms: CHI*

⁸³ *ISA 330, The Auditor's Responses to Assessed Risks*

⁸⁴ *Public Sector: INTOSAI, PAS, Member Bodies: IBRACON, IBR-IRE, Firms: CHI, RSM,*

⁸⁵ *Regulators: UKFRC*

⁸⁶ *Member Bodies: AE*

⁸⁷ *Regulators: IRBA, Public Sector: ACAG*

⁸⁸ *Regulators: IAIS*

⁸⁹ *NSSs: NBA*

⁹⁰ *ISA 620, Using the Work of an Auditor's Expert*

⁹¹ *Regulators: ESMA, Investors & Analysts: CFA*

⁹² *Firms: DTT, PWC*

⁹³ *Individuals & Others: NDEG*

Drafting

28. Many drafting suggestions were received which will be taken into account when the Task Force has decided on a way forward.

Appendix

Monitoring Group Responses Related to Risk Factors, the Structure of ED-540, and Application Material

Risk Factors

1. Three Monitoring Group members supported the risk factors (complexity, judgement and estimation uncertainty) in identifying and assessing the risk of material misstatement.⁹⁴ One was opposed to the risk factors because it was not seen to be possible to separate the risk factors sufficiently to guide an effective audit response.⁹⁵
2. Monitoring Group members made the following suggestions with respect to the risk factors:
 - Clarify whether estimates can only be assessed as low inherent risk where none of the risk factors are relevant.⁹⁶
 - Focus on the extent of the factors and not their existence, as the risk factors are present in all accounting estimates.⁹⁷
 - Clarify what procedures the practitioner should perform when the inherent risk is 'not low' because of a factor other than complexity, judgement and estimation uncertainty.⁹⁸
 - With respect to interrelationship between the risk factors, one Monitoring Group member noted that the driver of the risk of material misstatement is estimation uncertainty, and complexity and judgment are related to this factor.⁹⁹

Response to the Assessed Risk of Material Misstatement

3. With respect to basing the response to the assessed risk of material misstatement on the risk factors, two Monitoring Group members¹⁰⁰ were generally supportive. One Monitoring Group Member¹⁰¹ had significant concerns with the approach taken, while the fourth Monitoring Group member¹⁰² was of the view that the proposals are 'a step in the right direction'.
4. One Monitoring Group member¹⁰³ noted that there might be instances when the testing strategies for low inherent risk accounting estimates, as included in paragraph 15(a), are applicable to all accounting estimates and was of the view that the testing objectives in paragraphs 17-20 should be required for all accounting estimates, irrespective of the reason for the assessment of their inherent risk as 'low' or 'not low' risk, and whether or not the auditor places reliance on controls.

⁹⁴ BCBS, IFIAR, IAIS

⁹⁵ IOSCO

⁹⁶ IFIAR

⁹⁷ IAIS

⁹⁸ BCBS, IOSCO

⁹⁹ IOSCO

¹⁰⁰ BCBS, IAIS

¹⁰¹ IOSCO

¹⁰² IFIAR

¹⁰³ IOSCO

5. The same Monitoring Group Member¹⁰⁴ highlighted several areas where there is lack of clarity as to why certain testing objectives were considered relevant to one but not the other reasons for the auditor's risk assessment. It was therefore suggested to include the testing objectives in paragraphs 15 and 17-20 in a single list that applies irrespective of the assessed inherent risk.
6. With respect to the Board's approach on significant risk, one Monitoring Group member supported moving away from requirements that respond specifically to significant risk.¹⁰⁵ Another Monitoring Group member suggested there could be a stronger link established between an inherent risk that is not low and a significant risk.¹⁰⁶

Application Material

7. One Monitoring Group member¹⁰⁷ was of the view that sufficient application material was included to support the objective based requirements in paragraph 17-19, but noted concerns about the potential for confusion around the use of some key words given that they are used in multiple context in the ED. Two Monitoring Group members¹⁰⁸ identified several areas where further guidance would be useful. One Monitoring Group member¹⁰⁹ also suggested that some paragraphs of the application material, or parts thereof, should be moved to the requirements.

¹⁰⁴ IOSCO

¹⁰⁵ IFIAR

¹⁰⁶ IAIS

¹⁰⁷ IAIS

¹⁰⁸ BCBS, IFIAR

¹⁰⁹ BCBS