

*ISA 540, Auditing Accounting Estimates,
Including Fair Value Accounting
Estimates, and Related Disclosures*

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Feedback IAASB CAG Meeting

- Further outreach to identify issues for non-financial institution warranted
- More focus on internal controls and governance
- Address both complexity and estimation uncertainty
- Preference to emphasize and clarify the scalability of ISA 540 in the standard
- Broad support for
 - Emphasizing professional skepticism in ISA 540
 - Changes to requirement 8
 - More guidance third party data sources
- Binary choice between significant and non-significant is not sufficient
- Revised requirement 10 too detailed

Activities Since December Board Meeting

- Project Publication
 - Issued in early March 2016, includes material on audit issues regarding the move to Expected Credit Loss accounting
 - Have received positive feedback on the publication already
- Issues Paper
 - Builds on the project publication, includes many of the issues identified to date
 - Broadening effort beyond financial institutions
 - Some exploratory drafting included to stimulate discussion – not final proposals
 - Some issues identified will be addressed in subsequent IAASB meetings
- Task Force continues outreach efforts

Accounting Estimates in Non-Financial Institutions

- Areas where accounting estimates play a critical role in non-financial institutions
 - Calculation of reserves in extractive industries;
 - Asset retirement obligations;
 - Revenue recognition;
 - Business combinations;
 - Goodwill/ Intangible assets impairment;
 - Valuation of level 3 financial instruments;
 - Pension liabilities;
 - Contingent liabilities;
 - Share based compensation;
 - Deferred taxes; and
 - Leases

Matter for IAASB Consideration – Introduction

1. Does the IAASB see the need for further outreach to specific stakeholders to cover non-financial institution issues?

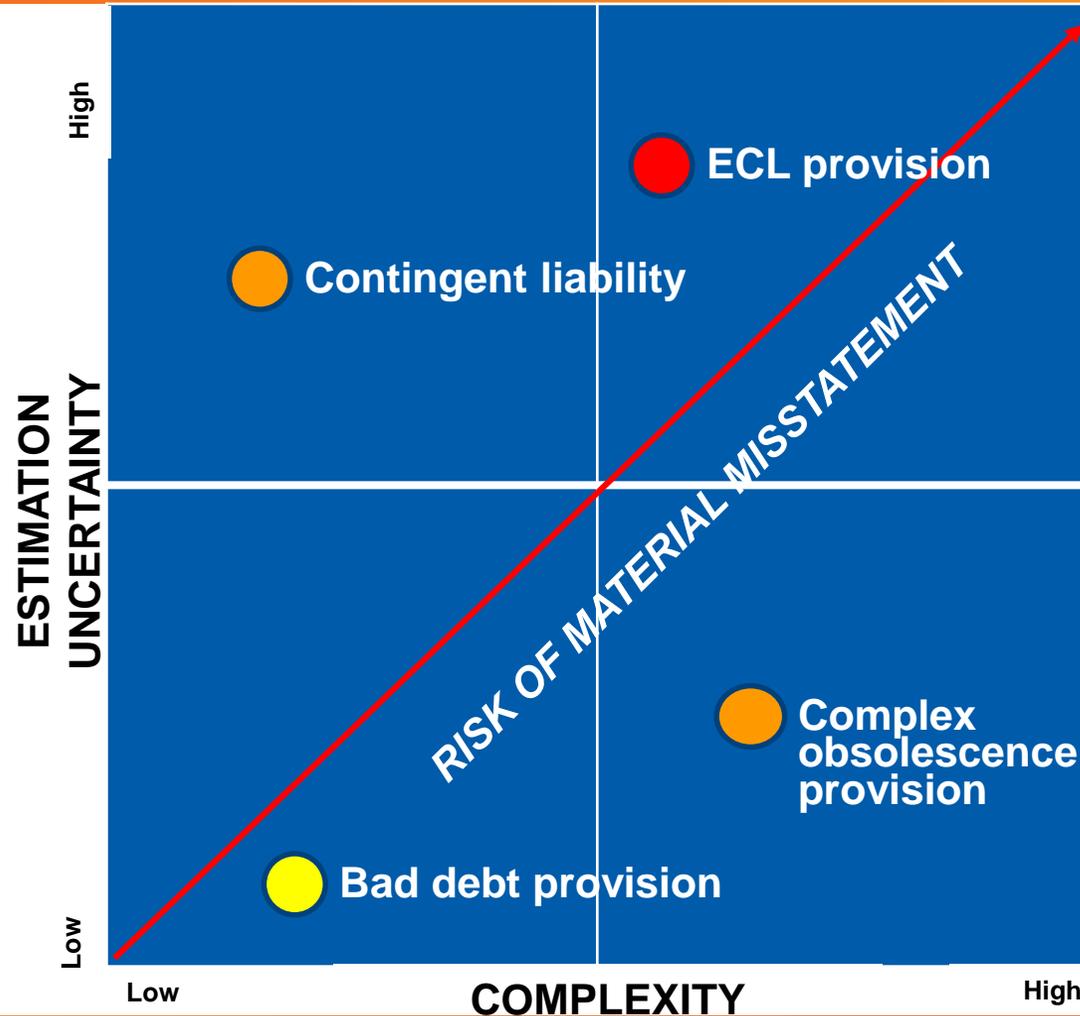
Areas Where Audit Challenges Have Been Identified

- Scope of ISA 540
- Professional Skepticism
- Risk Assessment Procedures and Related Activities
- Identification and Assessment of Risk of Material Misstatement
- Response to identified Risks of Material Misstatement
- Other Considerations

Matter for IAASB Consideration – Introduction

2. Does the IAASB agree that the audit challenges outlined in paragraph 6 are the most significant areas that need to be addressed by the Task Force? Are there additional areas that should be considered by the Task Force?

Estimation Uncertainty vs. Complexity



Scope of ISA 540

- Should the Scope of ISA 540 be Clarified?
- Options Task Force considered:
 - a) Split ISA 540 into two standards
 - b) Scope accounting estimates with low estimation uncertainty out of ISA 540
 - c) Emphasize and clarify the scalability of ISA 540

Matter for IAASB Consideration – Scope of ISA 540

3. The IAASB is asked to provide views on the discussion above regarding the question of addressing complexity and/or estimation uncertainty as a focus for the ISA. In particular, the Task Force invites views on whether the IAASB would see merit in investigating whether ISA 540 should also focus on the complexity of the accounting estimate.

Matter for IAASB Consideration – Scope of ISA 540

4. The IAASB is asked to provide views on the scope of ISA 540 in light of the discussion of the matters outlined above, including which of the options in paragraph 18 should be further investigated, if a change to the scope is sought. The IAASB is also asked whether there are options favored by Members that are not included in options (a) through (c) in paragraph 18.

Professional Skepticism

- Emphasize Professional Skepticism through Wording Used in ISA 540
- Bias
 - Management Bias
 - Auditor Bias
- Exploratory drafting in paragraph 21 to enhance professional skepticism
- Continue liaison with Professional Skepticism Working Group

Matter for IAASB Consideration – Professional Skepticism

5. Recognizing that the Task Force's deliberations are at an early phase, the Members are asked to comment on the discussion above and the draft amendments to paragraph 21

Risk Assessment Procedures and Related Activities

- Governance and Controls over Models and Data
 - Exploratory Drafting - Paragraph 8
- Model Development and Validation
- Key Data and Assumptions Underlying Accounting Estimates
 - Exploratory Drafting - Paragraph 8A
- Retrospective review
- Applying Professional Skepticism in Risk Assessment

Matter for IAASB Consideration – Risk Assessment Procedures and Related Activities

6. The IAASB is asked to provide views on the discussion on the risk assessment and related activities in light of the discussion above and the draft amendments to paragraph 8 and 8A.

Identification and Assessment of the Risk of Material Misstatement

- Evaluation of the Degree of Estimation Uncertainty
 - Exploratory Drafting - Paragraph 10
- Link Between Accounting Estimates with High Estimation Uncertainty and the Existence of a Significant Risk of Material Misstatement
- Factors Beyond Estimation Uncertainty to Identify Significant Risks
- Communication with Those Charged with Governance and Regulators

Matter for IAASB Consideration – Identification and Assessment of the Risk of Material Misstatement

7. The IAASB is asked to provide views on the discussion on the identification and assessment of the risks of material misstatement for accounting estimates in light of the discussion above and the draft amendments to paragraph 10.

Response to identified Risks of Material Misstatement

- Work Effort on Accounting Estimates
 - Exploratory Drafting - Paragraph 13
 - Emphasize more prominently that the procedures to be performed are scalable
 - Link the work effort to estimation uncertainty and/or complexity
 - More granular and be more like a menu of options
- Auditor Developed Ranges and Point Estimates
 - Management Addressing Estimation Uncertainty
 - Disclosures
- Professional Skepticism

Matters for IAASB Consideration – Response to identified Risks of Material Misstatement

8. The IAASB is asked to comment on the discussion above, particularly:
 - Whether the options that link the work effort closer to the identified risks of material misstatement should be further investigated?
 - Whether the IAASB believes that the development of ranges is always a useful way of obtaining sufficient appropriate audit evidence, in light of the concerns noted by auditors?
 - Whether the requirement in paragraph 16 could be altered to include alternative procedures to developing a range?
9. The IAASB is asked to provide views on the draft amendments to paragraph 13.

Other Considerations

- Using the Work of Others
 - Third-Party Data Sources
 - The Auditor's Use of the Work of Experts in Auditing Accounting Estimates
- Disclosure Considerations
- Auditor Reporting Implications

Matters for IAASB Consideration – Other Considerations

10. The IAASB is asked for its views on the inclusion of additional material on third-party data sources in ISA 540 and, where applicable, in ISA 500.
11. The IAASB is asked for its views whether the auditor's work effort on disclosures related to accounting estimates (particularly for accounting estimates with high estimation uncertainty but also for accounting estimates more broadly) should be strengthened.



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