Supplement F
to Agenda Item 9

RESPONSES RECEIVED ON THE EXPOSURE DRAFT

PROPOSED INTERNATIONAL STANDARD ON AUDITING 540 (REVISED), *AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES*

COMMENTS TO QUESTION 5

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the April 2017 Exposure Draft, Proposed International Standard on Auditing 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ED-540) and related analyses of significant issues will be presented at subsequent IAASB meetings. All comment letters on the Exposure Draft can be accessed here.

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?

#	Respondent	Comments
Investors and Analysts		
1.	CFA	**No Comment**
Those Charged with Governance		
2.	AICD	
Regulators and Oversight Authorities		
3.	**BCBS**	***1.4 Auditor assessment of management's point estimate within a range*** **Where estimation uncertainty exists, management may develop a range within which an accounting estimate may reasonably fall. Paragraph A123 provides helpful guidance on matters auditors should consider in assessing the reasonableness of management's point estimate, which include evaluating (1) the appropriateness of management's selection between alternative methods and sources of data; (2) that management's assumptions are selected from a range of reasonably possible amounts;**

		and (3) that management's point estimate is appropriately representative of the range of reasonably possible measurement outcomes. **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.** **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 estimate within the range, and comparing this with management's point estimate.** **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.**
4.	CEAOB	
5.	EBA	**In this regard, as part of the audit of internal controls and other audit procedures to be performed, we support the requirement in the ED for the auditors to develop their own point estimate or range for other than low risk estimates to evaluate the reasonableness of management's point estimate, and the related disclosures in the financial statements, when possible and appropriate. 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 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.**

		We also support the requirement in paragraph 19(b) of the ED for the auditor to develop their own point estimate or range for other than low risk estimates to evaluate the reasonableness of management's point estimate and the related disclosures in the financial statements in case management has not appropriately understood or addressed estimation uncertainty. Indeed, as part of the audit of internal controls and other audit procedures to be performed, we support this requirement in the ED when it is possible and appropriate. Such requirement, when possible and appropriate to be applied should increase the effectiveness of the audit procedures as it encourages the auditors to challenge management's assumptions and thus fosters the application of professional scepticism. **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 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.** **Paragraph 20 includes requirements for the development of auditors' range, when the auditor concludes that this is appropriate. However, it is not clear why the paragraph mentions only auditors' ranges and not also point estimates, as these provisions seem to be relevant for the latter as well. 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.** **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).** **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 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.**
6.	ESMA	<u>*Risk assessment (Q4-Q6 of the Request for comments)*</u> 1. The ED proposes a different risk model for risk assessment related to audit of accounting estimates compared to extant ISA 315. While ISA 315 broadly distinguishes between significant and non-significant risks, the ED acknowledges low inherent risk and

		non-low inherent risk in addition to significant risk. In our view, the ED does not describe and explain clearly and unequivocally (i) the risk level not being low and (ii) significant risk(s) and does not explain the relation between them. Consequently, ESMA encourages the IAASB to clarify further the risk model in the ED and its relation to the existing requirements of ISA 315. 2. ESMA agrees with the proposed risk assessment procedures and related activities in paragraph 10 of the ED. However, ESMA believes that the IAASB should consider that understanding of risk and related internal control related to (i) the preparation of accounting estimates and related disclosures by management as required by the respective financial reporting framework and (ii) the completeness of the estimates made by management should be explicitly considered as part of the understanding of the entity and its environment. 3. ESMA emphasises the importance of using specialised skills when auditing accounting estimates, notably when those estimates rely on complex modelling. Therefore, we welcome the requirement that the auditor needs to determine early in the audit process whether specialised skills or knowledge are required, in order to perform the risk assessment procedures, or to identify and assess the risks of material misstatement. However, we are of the view, that the importance of the use of specialised skills and knowledge should be highlighted in all phases of the audit of accounting estimates not only as part of the risk assessment. Use of specialised skills might be indispensable also during the planning stage, during performing testing of controls or substantive testing, notably in complex environment. *Factors taken into account in identifying and assessing the risk of material misstatement (Q4-Q6 of the Request for comments)* 4. ESMA agrees that complexity, management judgment and estimation uncertainty are principal factors to be taken into account in identifying and assessing the risk of material misstatement. However, ESMA is of the view that the level of estimation uncertainty represents the first element to be taken into account when identifying and assessing the risk of material misstatement, e.g. in case of reliance on forward-looking information. Consequently, we are of the view that this thought process should be reflected in the structure of the standard that should start with the level of estimation uncertainty, continue with the management judgement before considering complexity. ESMA also notes that the order of factors is different in the body of the standard and in Appendix 2 of the ED. *Responses to the assessed risks of material misstatement (Q4-Q6 of the Request for comments)* 5. ESMA is of the view that the structure of the requirements in the paragraphs 14-20 of the ED could be improved by more clearly addressing the two situations in paragraph 15 (i.e. specifically identifying audit procedures to be performed (a) when inherent risk is low and (b) when inherent risk is not low). Furthermore, paragraph 15(a) could explicitly require an auditor to assess whether previous audit procedures performed provide sufficient appropriate audit evidence, when inherent risk is low. 6. 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. 7. 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. 8. 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. 9. 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. 10. Finally, in our view, given that the accounting estimates are often subject to significant management judgement, the standard should include a separate requirement of obtaining relevant management's documentation regarding accounting estimates as part of obtaining sufficient appropriate audit evidence. Subsequently, taking into account the documentation received from management an auditor shall assess the appropriateness of an accounting estimate and conclude on its impact on the overall audit. *Audit documentation* 11. 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 - *Audit Documentation*. While ESMA does not support repetition of the requirements of other auditing standards, ESMA is of the view that the IAASB should 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. 12. We are of the view that estimation uncertainty, use of judgement and complexity of accounting estimates warrant additional documentation of the work of the auditors in this area than currently proposed by the ED. While we agree with the general intention of paragraph 27 of the ED, ESMA is concerned that the requirement of paragraph 27(a) of the ED is not sufficiently specific to ensure documentation of all substantial judgements and procedures when auditing this complex and judgemental area of financial reporting. 13. Therefore, ESMA suggests that the auditor should be required to document, with regards to all significant accounting estimates, as a minimum: a. the basis for the auditor's conclusions on the reasonableness of areas of subjective judgement (as included in paragraph 27(a) of

		the ED); b. assessment and evaluation of the accounting estimates, including their specific risk factors; c. significant judgements made by the auditor when assessing the accounting estimates; d. how professional scepticism in auditing accounting estimates was ensured; and e. assessment and evaluation of the factors driving potential risks related to the accounting estimates. ESMA is of the view that specific requirements for audit documentation of accounting estimates in ISA 540 (Revised) would specify the generic requirements in paragraph 32 of ISA 315. 14. Finally, ESMA notes that the documentation requirements should be extended by specific requirements related to the documentation of the identification and assessment of the risk of material misstatement in relation to the accounting estimates by the auditor. This is because in our view, the reference to ISA 315 in paragraph 13 of the ED seems to be overly restrictive and might not capture documenting auditors' identification and assessment of the individual relevant factors, which the accounting estimate is subject to. In our view, such documentation requirement is even more relevant when the auditor assesses the inherent risk of misstatement as low. *Key audit matters* 15. 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 ISA 540 (Revised). *Disclosures* 16. 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.
7.	**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. We like the stronger requirement for auditors to address uncertainty (where management have not) by developing a range included at paragraph 19(b). 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 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. 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.
8.	**IFIAR**	**Development of a range and estimation uncertainty** **17. The development of an auditor's range or point estimate (to the extent possible) is only required by the ED if the auditor believes that management has not appropriately understood or addressed the estimation uncertainty. We believe this creates a high bar for this requirement and inhibits professional scepticism as the auditor's estimate or range provides a valuable means for challenging management's estimate.**
9.	**IOSCO**	Reasonable ranges (paragraphs 20 and A2) 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 Board should provide more guidance and key considerations to facilitate practical application of the term 'reasonable.'** **It is also important to remind auditors to exercise their professional skepticism in developing the reasonable range and not to set too wide of a range or threshold when auditing management's accounting estimate. Further, 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.** **The guidance currently in paragraphs A128 to A134 is not sufficient. Therefore, the Board should provide clearer guidance on how to:** • **Set a reasonable range or threshold in testing management's accounting estimate;** • **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** • **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. **Paragraph 20 should also refer to guidance on developing an auditor's point estimate or using an auditor's range in paragraphs A128 to A134.** **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 to develop a point estimate or range, it does not discuss identifying differences or evaluating errors.** **Estimation uncertainty for populations with small number of high value items** **A final standard should address the issues of estimation uncertainty with populations containing a small number of high value items compared to populations containing a high number of low value items. Where the population contains a small number of high value items (e.g. models for impairment of non-financial assets or recoverability of a single large disputed debt) and an auditor's range of values is broad, the auditor would need to consider whether to perform additional audit procedures. Prominent disclosure may be required under the reporting framework concerning the estimation uncertainty, but disclosure by management is not a substitute for the auditor to obtain reasonable assurance and sufficient audit evidence with respect to management's estimates.** **Where a population contains a large number of low value items, the law of averages may assist in addressing estimation uncertainty (e.g. large numbers of small insurance contracts). However, there should also be guidance concerning the possibility of estimation bias in populations of a large number of low value items, that could result in material misstatements. For example, where differences between management's and auditor estimates are all in the same direction but each is less than the threshold, there could still be a material misstatement in aggregate. There may be other patterns or trends in differences identified.**
10.	IRBA	The requirement in paragraph 20 and related application material in ED-540 appropriately establishes how the auditor's range should be developed. This approach is more effective than the approach contained in extant ISA 540. This is an area where the enhancement proposed would also enhance the application of professional scepticism and we would be reluctant to see the IAASB revert to the approach of extant ISA 540.
11.	UKFRC	• **The improvements to what constitutes an appropriate 'auditor's range' and the approach to misstatements, although, as explained below in our response to question 5, we have some concerns as to the clarity of the proposed changes.** • **We support the IAASB addressing a concern that currently auditors may develop an auditor's range that is inappropriately wide. However, we are concerned that some auditors may not actually see the requirement in paragraph**

		20 and the related application material as a significant change from the extant standard and, in consequence, may not change what they do in practice and thereby fail to comply with the intent of the new requirements. We comment further on this, and how it might be addressed, in our response to Q5. **Professional scepticism** **Paragraph 5 of the ED includes a reminder of the importance of professional scepticism, with a particular focus on the risk of management bias. The two application material paragraphs in the ED that refer to professional scepticism are also linked to management bias. We agree that possible management bias is a particularly important consideration, but it is also important to be aware that professional scepticism is about more than just being alert to management bias and this should be recognised in the final revised standard. 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:** **“[As explained in ISA 200] professional skepticism is necessary to the critical assessment of audit evidence, including consideration of the sufficiency and appropriateness of that evidence and being alert to, and questioning, audit evidence that contradicts other evidence obtained. The application of professional skepticism by the auditor This is particularly important to the auditor’s work relating to accounting estimates due to their subjective, potentially complex and uncertain nature. These factors can heighten the risks of material misstatement, including as a result of management bias. Professional skepticism also is important because there is a particular risk of management bias affecting accounting estimates due to their subjective, potentially complex and uncertain nature.”** **Please see also our response to question 2 in the main letter.** **Auditor’s range** **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.** **The wording of paragraph 19(b) could support a false impression that the auditor only develops a point estimate or range when management has not appropriately understood and addressed the estimation uncertainty. Developing a point estimate or range may in fact be one of the ways the auditor seeks to obtain audit evidence for the purpose of paragraph 19(a). To address this we suggest adding the words “if the auditor has not already done so” after “the auditor shall”.** **Paragraph 20 establishes requirements that should apply whenever the auditor concludes that it is appropriate to develop an auditor’s range. However, this is not stated explicitly. Given the placing of this requirement after paragraph 19(b), it is possible that the assumption may be made that it only applies when the auditor concludes in accordance with paragraph 19(b) that it is appropriate to develop an auditor’s range.**

We recommend that it is clarified that the requirement in paragraph 20 applies whenever the auditor concludes that it is appropriate to develop an auditor's range, which would include under paragraph 15(a)(iii).

Auditor's range - multiples of materiality

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 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.

We understand that the IAASB is seeking to address a concern that currently auditors may develop an auditor's range that is inappropriately wide. Based on our outreach, we are concerned that some auditors may not see the requirement in paragraph 20 and the related application material as a significant change and, in consequence, may not change what they do in practice thereby failing to comply with the intent of the new requirements. As the result, the IAASB should ensure that this is clearly set out in the Explanatory Memorandum that is issued when the Standard is finalised. We illustrate this below with a side by side comparison why some auditors may incorrectly perceive that there is no change in substance:

ED 540	**Extant 540**	**FRC Comment**
20(a) requires that the auditor only includes in the range amounts that "are supported by the audit evidence"	13(d)((ii) requires the auditor to narrow the range "based on audit evidence available	While less explicitly clear, extant 540 does in effect require amounts in the range to be supported by audit evidence
20(b) requires that the auditor only includes in the range amounts that "the auditor has evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework."	13(d)(ii) requires the auditor to narrow the range "until all of the outcomes are considered reasonable"	In both cases the amounts have to be "reasonable", The ED sets out what that means whereas extant ISA 540 does not. Some auditors may consider that they already take this into account and that to be reasonable an amount would necessarily have to be acceptable under the applicable financial reporting framework.

		However, 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 material in the revised standard as it would help highlight the change from the extant position. 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.
National Auditing Standard Setters		
12.	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'. The AUASB considers that an auditor would develop their own range if considered optimal from a "gathering of sufficient appropriate audit evidence" perspective and as an independent check to management's outcome, but it should not be a requirement to do so in order meet the requirements of ED ISA 540. The development of a range or a point estimate for reporting purposes is the responsibility of the preparer. The AUASB is concerned that the designation of responsibilities between the auditor and management is sometimes unclear, which may lead to confusion and potentially an increase in scope of auditor's responsibilities if applied in practice. 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. 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. 5.1 Ranges exceeding materiality It is not clear whether the ED is introducing the concept that all ranges need to be within materiality – which for some estimates would not be possible. Some estimates are complex, involve a significant amount of judgement and can include significant estimation uncertainty. In such circumstances, the estimation uncertainty can lead to a range of possible outcomes that can be

		many multiples of materiality. In reality, it may not be possible to reduce the residual estimation uncertainty and bring greater precision to an estimate that is inherently imprecise under the applicable financial reporting framework. In the ED, this appears to be addressed in paragraph 20(b) where "other requirements of the applicable financial reporting framework" can be read as referring to materiality. This reference diminishes the exercise of auditor's professional scepticism and professional judgement. The AUASB acknowledges that this may well stem from the regulator concerns regarding how auditors are using auditor's professional scepticism and professional judgement in the establishment of their ranges and thresholds and holding to them consistently. In practice it is unlikely that ranges set are always within materiality, especially as management's or auditor's experts engaged by auditors or management (e.g. valuers) do not take materiality into consideration when they set their ranges. The AUASB considers that the standard requires clarity where ranges exceed materiality. Furthermore, 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. 5.2 Substantive analytical procedure 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 standard to guide auditors on when the use of a point estimate or range is most appropriate. 5.3 Misstatements 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.
13.	CAASB	In part. We agree that the requirement in paragraphs 19(b) and 20 appropriately establish how an auditor's range should be developed. However, 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. 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.
14.	CNCC-CSOEC	Yes, we believe that the requirement in paragraph 20 appropriately establishes how the auditor's range should be developed. We are supportive of requiring the auditor, to the extent possible, to develop an auditor's point estimate or range to enable him to evaluate the reasonableness of management's point estimate and the related disclosures that describe the estimation uncertainty. 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. 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".
15.	HKICPA	We consider the requirement in paragraph 20 and related application material provide sufficient guidance for developing a point estimate or a range. 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. 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 markets should be based on 'observable references' (i.e. not hear-say). 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).
16.	IDW	We believe that the requirement in paragraph 20 is superior to that in extant ISA 540. The requirement in extant ISA 540 was not practicable because it assumed that if an auditor obtains more evidence, the range of the estimate would narrow, when in fact gathering more evidence can lead to a widening of the range; in addition, often more information simply is not available. We also support the application material as written for this particular issue.
17.	JICPA	☐ **Auditor’s Point Estimate or Auditor’s Range / Substantive Analytical Procedures (paragraphs A97 and A128)** **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.**

		Analytical procedures are procedures to indirectly analyze the amount in the financial statements by using financial and non-financial data. On the other hand, developing an auditor's point estimate or an auditor's range is the procedure by which the auditor, by themselves, derives the amount (or range) of an accounting estimate. For example, when the auditor develops a point estimate or auditor's range by using a model that is commercially available for use in a particular sector or industry, or an expert-development or auditor-development model, we believe the auditor can obtain more persuasive audit evidence than those obtained from general substantive analytical procedures that analyze plausible relationships among data. In substantive analytical procedures, the variance between recorded amounts and expected values is not automatically treated as a misstatement. If the difference exceeds certain amounts that are acceptable without further investigation, the auditor is required to perform further investigation and it is usual that the auditor determines the amount of misstatement after performing other tests of details. On the other hand, 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 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. **We agree it is not clear from the existing ISAs as to which procedures the auditor's point estimate or range is categorized as. However, we are concerned that the approach of ED-540, which categorizes the auditor's point estimate or range as substantive analytical procedures and simply refers to ISA 520 (paragraph A128), may lead to unintended consequences relating to the provisions in the existing ISAs, such as :** - **Paragraph 21 of ISA 330 states when the approach to a significant risk consists only of substantive analytical procedures, those procedures shall include tests of details. When the auditor does not plan to rely on control over a risk the auditor has determined to be a significant risk, ED-540 implies that the auditor is required to perform other tests of details in addition to developing an auditor's point estimate or range in all cases. We consider that it is not appropriate. As stated above, developing an auditor's point estimate or an auditor's range is very different in character from other general substantive analytical procedures.** - **Paragraph A44 of ISA 330 states substantive analytical procedures are generally more applicable to large volume of transactions that tend to be predictable over time. However, due to the estimate's character of lack of precision in its measurement and existence of choice of models, assumptions, and data, developing an auditor's point estimate or an auditor's range are procedures that the auditor derives the amount or range by themselves. Therefore, it does not fit the definition of analytical procedures that applies when there is a plausible relationship among data.** **Therefore, we believe developing an auditor's point estimate or an auditor's range should be categorized as tests of details.**
18.	MAASB	The AASB supports the requirement in paragraph 20 that is clearer than the extant ISA. The AASB notes the practical challenges in developing auditor's range particularly in the current business environment that is subject to rapid changes and disruptions. It may be

		particularly challenging to obtain audit evidence on industry benchmark or past trend to appropriately support the auditor's range. Nevertheless, the AASB is of the view that clarity in the audit procedures where the auditors' range exceeds performance materiality would be helpful.
19.	NBA	**Range** **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 audi-tor 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).** 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 exam-ples. 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?
20.	NZAuASB	As noted in the preceding comment, our constituents indicated that it is not common for the auditor to develop a range. 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 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. 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.
Accounting Firms		
21.	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. 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 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.

		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. 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. We also propose providing additional guidance on auditing management's assumptions, including some practical examples.
22.	CHI*	
23.	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 believes that the proposed requirements to support amounts in the range with audit evidence are consistent with the ISAs overall, while allowing for the appropriate level of professional judgment to be applied by the auditor. 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 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.
24.	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. In particular, we support the requirement for the auditor's range being stated in the form of an objective, because it is important for the auditor to focus on determining that the range is supported by audit evidence and is reasonable in context of the applicable financial reporting framework. We have the following additional comments: • 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. • Per paragraph 15 (b), paragraph 20 is required only for accounting estimates that have an inherent risk of "not low". As we express in our response to Q3, when the auditor selects the approach to develop a range for estimates for which the inherent is "low", we believe that paragraph 20 should apply. • 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 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).
25.	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. 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 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.
26.	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). Notwithstanding the above, we have the following concerns with respect to other requirements and application guidance related to the auditor's range: a. Paragraph 19(b) requires (to the extent possible) that the auditor develop an auditor's point estimate or range when management has not appropriately understood and addressed estimation uncertainty. This requirement 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 frameworks) and the auditor should focus on management's response. 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).

Consequently, 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.

b. 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:

(1) ISA 520.7 states that if analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences. This seems to suggest a different approach than the one prescribed in paragraph ED-540.A145 of the ED, according to which management's point estimate which lies outside the auditor's range is considered a misstatement without further investigation;

(2) ISA 520.A16 states that the auditor's determination of the amount of difference from the 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. This paragraph further suggests that as the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence. This may seem to convey a different message from the one conveyed in paragraph ED-540.A134 which describes situations where an auditor's range can be multiples of materiality, and therefore could cause confusion.

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; and;

(3) When the auditor chooses to develop an independent estimate to audit management's estimate (or a component 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.

c. 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.

Although the IAASB may have conceptually addressed that by referring to the auditor's independent estimate as a substantive analytical procedure, we believe that ISA 520 contains limited guidance that can assist the auditor in the context of developing an independent expectation for an estimate.

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. d. It may not be clear whether, and if so – how, the requirement in paragraph ED- 540.19(b) is any different to developing an auditor's point estimate or a range in accordance with ED-540.15(a)(iii). Specifically, it may not be clear whether ED- 540.20 and its related application materials are applicable to an independent estimate made in accordance with paragraph ED-540.15(a)(iii). 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. e. 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 auditor's range. We would suggest either clarifying the example or relocating it to the application material that discusses management bias.
27.	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. However, 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.
28.	PWC*	We support the intent of paragraph 20 and the revised language in part (b). The concept of "narrowing the range" in the extant ISA was criticised by some as being disingenuous. With respect to 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. 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. We also note that there may be some circumstances where the auditor is not able to obtain sufficient appropriate audit evidence about the estimate because the company does not have adequate processes in place to make a reliable estimate. Similar to the positions take in ISA 700 paragraphs 23 and A23 regarding omitted disclosures, and ISA 570 paragraphs 24 and A35 regarding going concern assessments, if management has not made the estimate themselves, or does not have adequate processes to do so, it may not be

		practicable for the auditor to develop a point estimate or a supportable range. 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). 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. While the auditor is required to develop an "expectation of recorded amounts or ratios" when performing an analytical procedure in accordance with ISA 520, the type of point estimates or ranges that are often developed in obtaining audit evidence for accounting estimates are, in our view, of a different nature. For example, the auditor may use an actuary to make an independent actuarial valuation of a pension obligation, or reperform management's process. These are procedures that provide persuasive and reliable audit evidence that is more akin to the nature of evidence obtained in a test of detail. Extant ISA 540 did not equate making a point estimate or auditor's range to ISA 520 analytical procedures and we do not believe it is appropriate for the revised ISA 540 to do so either. Furthermore, we believe that categorising an auditor's point estimate or range as a substantive analytic procedure has the effect of requiring the auditor to perform additional tests of details in the event that the relevant assertion(s) of an estimate being tested has been assessed as a significant risk (ISA 330 paragraph 21). We believe in many cases the procedures performed in developing an auditor's point estimate or range are, themselves, tests of details which provide sufficient appropriate audit evidence to address such a significant risk.
29.	RSM*	Yes, we believe that this will be more effective than the current approach in ISA 540 as this has often been hard to achieve and document adequately in practice. We also welcome the removal of the requirement in paragraph 15(a) of extant ISA 540 to assess how management have considered alternative assumptions or outcomes for significant risks. Sometimes management did not carry out this exercise, particularly in smaller entities.
30.	SRA	
Public Sector Organizations		
31.	ACAG	Yes, ACAG believes that the requirement establishes how the auditor's range is to be developed. ACAG also recommends that paragraph 20 be amended to include point estimate or an additional requirement for when the auditor develops the point estimate.
32.	AGA	Yes. However as noted above if all amounts in the range are reasonable, it would be an advance for the profession to have the auditor include a scope limitation (that the auditor cannot determine which net income is correct because several net incomes from $X to $Y in a reasonable range are all equally correct).
33.	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. Yes, this approach will 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. In particular, this approach will be more effective in situations where accounting estimates are quite large relative to overall materiality and highly sensitive to variations in assumptions thereby making it difficult to narrow the auditor's range below performance materiality.

34.	AGNZ	The requirement in paragraph 23 for the auditor to "stand back" is a useful requirement. However, we feel that it is a useful requirement that should be applied to all areas of the audit, not just auditing accounting estimates.
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.
36.	GAO	We support the approach for establishing how the auditor's range should be developed, as it focuses on determining whether the range is reasonable rather than prescribing how to narrow the range.
37.	INTOSAI	Public sector considerations: No public sector considerations requiring communication to the Board were identified. Other comments: We found the requirements and guidance concerning the auditor's range acceptable.
38.	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.
Preparers of Financial Statements		
39.	ABA	
Member Bodies and Other Professional Organizations		
40.	ACCA-CAANZ	**More clarity in relation to auditor's ranges and point estimates, in particular when it is appropriate to use one as opposed to the other. 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.** We do not support the proposed requirements in this area. The concern in relation to auditor's ranges appears to be that auditors do not sufficiently narrow their ranges and therefore may accept an estimate from management that falls within the auditor's range but that is, in fact, not reasonable. 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 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. The approach taken in ED-540 appears to put the onus on the auditor to develop their own range and estimates, as opposed to assessing whether the range or point estimate prepared by management is reasonable. While this may be the most efficient option for some estimates, this is not always the case. Given the highly complex nature of some estimates, it may not always be possible for the auditor to develop their own range or point estimates. Management is responsible for the preparation of the financial report and the estimates contained in the financial statements and disclosures. The auditor's responsibility is to obtain sufficient appropriate audit evidence that these are not materially misstated rather than re-perform the work of management. The auditor may decide that determining their own range is appropriate for some estimates but it should not be mandatory for all estimates. If the estimate is highly complex or management's work in determining the estimate is not sufficient, the auditor needs to consider the impact on their opinion, including modifications, or withdrawing from the engagement. This would be consistent with the approach taken in other standards to address a failure by management to fulfil their responsibilities. Further, estimates that have a high degree of uncertainty will have a wide range of possible outcomes and no degree of audit effort can eliminate this. The standard needs to have to take a principles-based approach so that auditors can determine the appropriate response to the degree of uncertainty within an estimate. 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.
41.	AE	**In addition, 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.** (35) The requirements in paragraph 20 do appropriately establish how the auditor's range should be developed. This approach should be more effective than the approach of "narrowing the range", as currently included in extant ISA 540, in evaluating whether management's point estimate is reasonable or misstated. The extant standard requires to ''narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable''. Such a requirement could result in an auditor's range that is inappropriately wide, as noted in ED-540. (36) Nevertheless, 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. (37) 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. (38) 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. (39) This is a challenging area where we would expect that the field testing exercise will help determine whether the approach proposed is indeed better than the ''narrowing the range'' approach in the extant ISA 540.
42.	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. The range developed by the auditor needs to be sufficiently narrow to identify a material misstatement. Given the nature of certain accounting estimates, it may be impossible to narrow such a range to an amount below performance materiality (for example, actuarial reserves). Nevertheless, there has to be a reasonable basis to support the auditor's range, based on the evaluation of sufficient appropriate audit evidence, before concluding on an accounting estimate. 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: 1. 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.

		2. 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. 3. Most significantly, paragraphA16 of ED 540 states that the determination of the amount of difference from the 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.
43.	ANAN	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.
44.	CAI	We are broadly supportive of the proposed amendments to remove the requirement to 'narrow the range' when developing an auditor's range. As a result of now only including 'reasonable outcomes' as opposed to 'all possible outcomes' this should result in more appropriately defined and narrow ranges. 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.
45.	CAQ	**III. Auditor and Management Responsibilities** **Auditor Requirements Beyond Management Responsibilities** **Several statements within the Exposure could be interpreted to require the auditor to assume management responsibilities. For example, when estimation uncertainty exists, paragraph 19(b) of the Exposure would require the auditor to develop an auditor's point estimate or range to enable the auditor to evaluate the reasonableness of a management point (i.e., recorded) estimate when, in the auditor's judgment, management has not appropriately understood and addressed the estimation uncertainty. This could result in the auditor assuming management's responsibilities related to supporting the amounts recorded in the financial**

		statements. Additionally, it is likely that it would result in the auditor concluding control deficiencies exist, and potentially, changes to risk assessments, if the auditor determines that management has not appropriately understood and addressed the estimation uncertainty. Current standards require the auditor to communicate certain identified deficiencies in internal control and changes in the audit plan with those charged with governance.10 However, the Exposure, as written, seems to imply that the extent of the auditor's response to the risk could be sufficiently addressed solely through the development of a point estimate or range. The Exposure should, instead, require the auditor to communicate the insufficiency of management's process when management has not appropriately understood and addressed estimation uncertainty. Linking this requirement, as well as other requirements (such as those that relate to management addressing its bias in paragraph 10 of the Exposure) to the requirements of the applicable financial reporting framework, clarifies management's responsibilities. We further recommend linking paragraph A125 of the Exposure to the circumstances in paragraph 19(b).
46.	CPAA	We note that the application material requires referencing in paragraph 20 and vice versa. 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.
47.	CRUF	
48.	EFAA	We have no comments to make.
49.	FACPCE	We believe it would help understanding add examples or cases.
50.	IAA	Refer to letter
51.	IAAA	We understand that the requirements foreseen in the project properly establish a much improved range definition guides, which are more detailed in comparison to those established in paragraph 16 and the application materials in paragraphs A111and A112 of the current NIA 540. However it is important to clarify that they are a guide for the auditor and not a definitive question for the purpose of determining the auditor's rank

52.	IBRACON	We support the intent of paragraph 20. 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. 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 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.
53.	IBR-IRE	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. 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. We note that the IAASB rightly acknowledges that in certain instance the auditor's range could be a multiple of materiality.
54.	ICAEW	**High estimation uncertainty and the 'stand back'** **19. 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 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.** 60. IAASB should address more clearly 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 paragraph A134. IAASB might 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. 61. 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'. 62. 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 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 63. While we support the proposed requirement for auditors to address estimation uncertainty where management has failed to do so adequately, we reiterate the importance of IAASB engaging with other stakeholders in the financial reporting supply chain to deal with the risk of management failing to address the issue of estimation uncertainty in the knowledge that as a result, auditors will be required to do so. IAASB has a role to play in educating the wider stakeholder group that preparers and users of financial statements also have responsibilities, including understanding that: • estimates represent a significant element of modern financial statements; • they are what they say on the tin – just estimates; • as noted above, it is not uncommon for one valuer to arrive at a point estimate for a goodwill impairment or investment that is significantly different to that of another; • the solution is often good quality disclosure of the relevant assumptions and sensitivities, regardless of whether they are specifically required by the financial reporting framework. 64. 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.
55.	ICAG	Yes, we think that the requirement in the said paragraph appropriately establish how the auditor should develop his range, in evaluating whether management's point estimate is reasonable or misstated. This method is more expansive. "Narrowing the range" method is a bit more limited.

56.	ICAP	We understand that the ED 540 requires the auditor to develop a point estimate or a range to evaluate management's point estimate, whereas the extant ISA 540 requires the auditor to reduce the range to what is reasonable. 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.
57.	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. In particular, we welcome the decision to remove the requirement for the auditor to 'narrow the range until all outcomes within the range are considered reasonable'. We believe that this requirement lacked clarity and could result in a range that was inappropriately wide. That said, we do believe that the planned field testing exercise will help determine whether this is a better approach.
58.	ICAZ	The requirement appropriately establishes how the auditor's range should be developed for reasonable amounts that are supported with audit evidence. The auditor may develop a point estimate or a range in several ways leaving this method open to subjectivity however, appears more effective than narrowing the range. Also narrowing the range may become too prescriptive resulting in failure to respond to the specific circumstances faced by the auditor.
59.	ICPAK	Yes it does
60.	ISCA	5.1 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. 5.2 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.
61.	KICPA	We support IAASB's decision not to maintain the approach of "narrowing the range," due to concerns that the extant ISA 540 that requires the auditor to "narrowing the range" until all outcomes in the range are considered reasonable," coupled with a lack explanation about what would constitute a "reasonable outcome," could result in an auditor's range that is inappropriately wide The extant requirements and application materials, however, do not provide sufficient guidance as to how to develop an auditor's point estimate or range, in case an auditor's point estimate or range is concluded to be appropriate to enable him/her to evaluate the reasonableness of management's point estimate, as we believe. Auditing companies varying in terms of their size and industry, application examples in practice in detail would be necessary, surely in a form of non-authoritative guidance, rather than being included in ISAs.
62.	NASBA	Paragraph 128 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.

63.	SAICA	49. 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. 50. One survey respondent found it more difficult to determine a range that is specifically applicable to the estimate being audited and suggested that guidance and examples should be provided in this regard. 51. 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. 52. 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). 53. The field testing respondents also indicated that the determination of an auditor's range is one of the difficult areas to implement. Annexure 1 to this comment letter provides a summary of responses from field testing (refer to field testing questions (b) and (i)(2)). 54. All of the survey respondents agreed that the revised approach relating to determining and using an auditor's range in evaluating whether management's point estimate is reasonable or misstated, will be more effective. 55. When one considers the end result of the proposed approach to developing an auditor's range, compared to the "narrowing the range" approach in the extant standard, SAICA's conclusion is that you in essence achieve the same result, without being 'limited' by the application material in the extant standard (paragraphs A93 to A95) around specific steps to "narrow the range". 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 that the IAASB considers how these important concepts may be clarified further, including using examples to illustrate. 56. 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.
64.	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. 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. 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.
Academics		
65.	GC	
Individuals and Others		
66.	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'. 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. 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.
67.	NDEG	5.1 We support the intent of paragraph 20 and the revised language in part (b). The concept of "narrowing the range" in the extant ISA was felt as being disingenuous. 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 5.2 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.