

Analysis of Responses to Question 8 of the Exposure Draft

Section I: Question included in Exposure Draft

1. The following question was asked in the exposure draft:
 - 8) *In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:*
 - (a) *Translations – Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-540.*
 - (b) *Effective Date – Recognizing that ED-540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*

Section II: Staff Analysis of Respondents' Views¹

Monitoring Group Responses

2. One member of the Monitoring Group,² supported the proposed 18-month transition period from the date of approval of a final ISA, with earlier application to be permitted and encouraged, to provide a sufficient period to support the effective implementation of the revised standard. This member also believes that audit firms could and should be taking preliminary steps to ensure they can early apply the improved standard to their audits of accounting estimates. Other Monitoring Group members³ did not comment specifically on the proposed effective date or length of the transition period. However, one member⁴ strongly encouraged the IAASB to finalize the standard expeditiously, with early adoption permitted, as it is important that auditors are able to apply the standard in the year that banks adopt an ECL accounting framework.

Translations

3. A majority of respondents to the Exposure Draft of Proposed ISA 540 (ED-540)⁵ did not address the question about potential translation issues, indicated that no potential issues had been noted,

¹ In this paper the following terms have been used:

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

² *Regulators: IAIS*

³ *Regulators: BCBS, IFIAR, IOSCO*

⁴ *Regulators: BCBS*

⁵ Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

or otherwise stated that they had no comment. A total of 14 respondents⁶ provided specific comments.

4. A number of the comments received were general in nature, but referred to the importance of using clear, concise language and the need to avoid inconsistent terminology:
 - Long complex sentences are difficult to translate.⁷
 - Language should be as crisp and precise as possible.⁸
 - The use of plain English should mitigate the risk of translators inadvertently changing the meaning of the original text.⁹
 - Elimination of redundancies and repetitive phrases will aid translation.¹⁰
 - Consistent terminology throughout the standards is particularly important to avoid difficulties in the translation of the text.¹¹
5. Specific concerns were noted over wording used in ED-540 that could cause difficulties with translations. These include:
 - Concerns about the use of “reasonable” when referring to disclosures (see discussion in the analysis of Question 6);¹²
 - Technical terms, for example, ‘level 1 inputs’, ‘level 3 fair values’, may be difficult to translate;¹³
 - Words such as “may” or “could” may, when translated, lead to different interpretations and meanings;¹⁴
 - The meaning and differentiation in the use of the term ‘estimate’ and ‘estimates’ needs to be made clear. This is a subtle nuance that can be easily lost;¹⁵
 - Overuse of the words “includes” or “including”;¹⁶ and
 - The use of, or possible need to define, “significant data” (see discussion in the analysis of general comments)¹⁷

⁶ NSS: CAASB, CNCC-CSOEC, IDW, NBA, *Firms*: BDO, DTT, GTI, *Member Body*: AE, EFAA, IBRACON, IBR-IRE, ICAS, SMPC, *Public Sector Organizations*: INTOSAI

⁷ NSSs: NBA

⁸ *Firms*: DTT

⁹ *Member Bodies*: EFAA, SMPC

¹⁰ *Firms*: DTT, *Member Bodies*: IBRACON

¹¹ *Member Bodies*: AE, IBR-IRE

¹² NSSs: CNCC-CSOEC, *Member Bodies*: AE, IBR-IRE, *Firms*: BDO

¹³ NSSs: NBA, *Firms*: BDO

¹⁴ *Member Bodies*: AE, IBR-IRE

¹⁵ *Firms*: GTI

¹⁶ NSSs: IDW

¹⁷ *Firms*: BDO

Effective Date

6. A majority of respondents¹⁸ were supportive of the proposed 18-month transition period from the date of approval of a final ISA. Of those respondents, some¹⁹ noted that 18 months should be the minimum transition period, given the time needed for translation and due process in various jurisdictions, and that audit firms need to implement significant changes to their methodologies. Other respondents²⁰ indicated that the transition period should at least be 12 months after approval. A few respondents²¹ suggested an effective date for financial reporting periods beginning two years after approval of the final ISA.
7. Some respondents²² urged the IAASB to finalize the revision of ISA 540 as soon as possible given the impending mandatory effective date of IFRS 9ⁱ (annual periods beginning on or after January 1, 2018) and other standards (e.g., IFRS 15).ⁱⁱ
8. Some respondents²³ stressed that it is important not to compromise on quality in finalizing the revisions to ISA 540 and to provide a sufficient period to support the effective implementation of the revised standard.²⁴ A few respondents²⁵ encouraged the IAASB to take extra time to finalize the standard if needed to improve clarity and ensure a high-quality standard. A respondent²⁶ noted that additional time will be required to educate the business community, management and auditors with respect to management's and the auditor's responsibilities under the finalized proposals. Some respondents²⁷ cautioned the IAASB against finalizing the revised ISA 540 before fully considering the consequential impact on ISA 540 of proposed changes to ISA 315 (Revised).²⁸
9. All respondents²⁹ that commented on early adoption agreed that early adoption should be permitted. Of these, several noted their support for early adoption in view of the effective date of IFRS 9.

¹⁸ *Regulators: IAIS, IRBA, NSSs: AUASB, CAASB, CNCC-CSOEC, IDW, MAASB, NBA, NZAuASB, Firms: BDO, DTT, GTI, KPMG, PKF, PWC, RSM, Public Sector: AGA, AGC, GAO, INTOSAI, PAS, Member Bodies: AE, CPAA, EFAA, FACPCE, IBRACON, IAA, ICAS, ICAZ, ISCA, ICPAK, SAICA, SMPC, Investors & Analysts: CFA, Individuals & Others: NDEG*

¹⁹ *NSSs: IDW, Firms: KPMG, DTT, Member Bodies: SAICA, SMPC, Public Sector: INTOSAI*

²⁰ *Firms: EYG, Public Sector: ACAG, Member Bodies: ANAN*

²¹ *Public Sector: INTOSAI, NSSs: IDW, Member Bodies: SMPC*

²² *Regulators: BCBS, EBA, ESMA, IAIS, Firms: PKF, Member Bodies: ICAS*

²³ *Regulators: EBA, ESMA, NSS: CNCC-CSOEC, Member Bodies: AE, ICAS*

²⁴ *Regulators: IRBA NSS: IDW, Public Sector: INTOSAI, Member Bodies: ICPAK*

²⁵ *NSSs: NBA, Firms: KPMG*

²⁶ *NSS: AUASB*

²⁷ *Public Sector: ACAG, AGA, Member Bodies: ICAS, SPMC*

²⁸ *ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

²⁹ *Regulators: BCBS, EBA, ESMA, IAIS, UKFRC, NSSs: AUASB, CAASB, IDW, NBA, NZAuASB, Firms: DTT, EYG, GTI, KPMG, PKF, PWC, Member Bodies: FACPCE, ICAEW, ICAS, ICAZ, ICPAK, SAICA, Individuals & Others: NDEG*