Agenda Item 2-G

Comparison of Current Draft of Proposed ISA 540 (Revised) with ED-540 – Requirements

The purpose of this agenda item is to facilitate the Board's consideration of the changes to the requirements from ED-540. When reviewing this document, Board members are asked to take into account the following:

- This document compares the requirements in ED-540 (included in the left-hand column in the table below) with those in the current draft of proposed ISA 540 (Revised) as included in **Agenda Item 2-C** (middle column).
- A high-level staff summary of the Task Force view of the nature of the changes is included in the right-hand column. This analysis is in addition to the analysis included in paragraph 8 of **Agenda Item 2-F** and the explanations of changes that are included **in Agenda Items 2** and **2-A**, as well as those given at previous Board meetings.[1]
- This document includes color-coding and explanations to show where key phrases in paragraphs 10 and 17–20 from ED-540 have been relocated in the current draft of proposed ISA 540 (Revised), but where the intent is nonetheless the same. Accordingly, the document is best viewed on screen or printed in color to facilitate the review.

ED-540	Current Draft of Proposed ISA 540 (Revised)	Task Force View on the Nature of the Changes
Scope of this ISA		
1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised),[2] ISA 330,[3] ISA 500[4] and other	1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA	Minor wording changes only.

[1] Agenda Item 2 of the December 2017 IAASB meeting, Agenda Item 2-A of the December 2017 IAASB meeting, Agenda Item 2 of the March 2018 IAASB meeting, Agenda Item 2-A of the March 2018 IAASB meeting.

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

[3] ISA 330, *The Auditor's Responses to Assessed Risks*

[4] ISA 500, *Audit Evidence*

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relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.	315 (Revised),[5] ISA 330,[6] ISA 450,[7] ISA 500[8] and other relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.	
Nature of Accounting Estimates		
2. Many financial statement items are susceptible to an inherent lack of precision in their measurement, which is referred to as estimation uncertainty. In the ISAs, such financial statement items are referred to as accounting estimates. Accounting estimates vary widely in nature, and their measurement may also be subject to, or affected by, complexity and the need for the use of judgment by management. The extent to which they are subject to or affected by complexity and judgment is often related closely to the extent to which they are subject to or affected by estimation uncertainty. Accordingly, the auditor's identification and assessment of the	2. Accounting estimates vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed. The measurement of these monetary amounts is subject to estimation uncertainty, which reflects inherent limitations in knowledge or data. These limitations give rise to inherent subjectivity and variation in the measurement outcomes. The process of making accounting estimates involves selecting and applying a method using assumptions and data, which requires judgment by management and can give rise to complexity in measurement. The effects of complexity, subjectivity or other inherent risk	Wording amended to reflect change in focus on methods, data and assumptions, but retains the reference to the inherent risk factors.

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

[6] ISA 330, *The Auditor's Responses to Assessed Risks*

[7] ISA 450, *Evaluation of Misstatements Identified during the Audit*

[8] ISA 500, *Audit Evidence*

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risks of material misstatement relating to accounting estimates, and the auditor's responses to those assessed risks are affected by these three factors, and the interrelationship among them. (Ref: Para: A1, Appendix 1, Appendix 2)	factors on the measurement of these monetary amounts also affects their susceptibility to misstatement. (Ref: Para. A1–A6, Appendix 1)	
3. When an accounting estimate is being made, its susceptibility to misstatement may increase because of the need to: (a) With respect to complexity: (i) Apply appropriate specialized skills or knowledge in the selection, design or application of the method used to make the accounting estimate, including when the method involves complex modelling. (ii) Appropriately consider the relevance and reliability of the data used, whether the data is obtained from internal sources or from external information sources. (iii) Maintain the integrity of the data used. (b) With respect to the use of judgment by management:		Paragraph was deleted as the Task Force believed that the material was better re-purposed as application material supporting the auditor's consideration of the inherent risk factors. Accordingly, these points are included in various places in the application material related to paragraphs 12 and 15. Appendix 1 includes additional explanations about the inherent risk factors.

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(i) Appropriately take into account available information when selecting methods, assumptions, or data. (ii) Mitigate the risk of management bias. (c) With respect to estimation uncertainty: (i) Take appropriate steps to address estimation uncertainty. (ii) Select an appropriate management point estimate or make appropriate related disclosures in the financial statements.		
Key Concepts of This ISA		
	3. This ISA requires a separate assessment of inherent risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates. Depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, and the interrelationship among them.	Paragraph was added to highlight the focus on inherent risk factors and to help explain the concept of a spectrum of inherent risk, which already exists in ISA 200 but not described using that term.

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	As explained in ISA 200,[9] inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to in this ISA as the spectrum of inherent risk. (Ref: Para. A7-A8, A63-A64, Appendix 1) 4. This ISA refers to relevant requirements in ISA 315 (Revised) and ISA 330, and provides related guidance, to emphasize the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether: • There are controls relevant to the audit, for which the auditor is required to evaluate their design and determine whether they have been implemented. • To test the operating effectiveness of relevant controls. 5. This ISA also requires a separate assessment of control risk for accounting estimates. In assessing control risk at the assertion level, the auditor takes into account whether the	

9 ISA 200*, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A40

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	auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not perform tests of controls, the auditor's assessment of the risk of material misstatement at the assertion level cannot be reduced for the effective operation of relevant controls with respect to the particular assertion.[10] (Ref: Para. A9)	
4. This ISA focuses the auditor's attention on designing and performing further audit procedures (including, where appropriate, tests of controls) responsive to the reasons for the assessment given to the assessed risks of material misstatement, particularly when those reasons include complexity, judgment or estimation uncertainty. This ISA also recognizes that the factors of complexity, judgment or estimation uncertainty are interrelated and that there are inherent limitations in reducing estimation uncertainty beyond certain limits.	6. This ISA emphasizes that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to the assessed risks of material misstatement at the assertion level, taking into account the effect of one or more inherent risk factors. When the auditor plans to rely on controls, such reasons may relate to a combination of inherent and control risk.	Revised to better align the wording for the reasons for the assessment of the risks of material misstatement to ISA 330. The inter-relationships between the inherent risk factors are addressed in Appendix 1.
5. The application of professional skepticism by the auditor is particularly important to the auditor's work relating to accounting estimates. Professional skepticism also is important	7. The exercise of professional skepticism by the auditor is important to the auditor's work relating to accounting estimates because of susceptibility to misstatement due to	Minor wording changes, including introducing a reference to fraud.

10 ISA 530, *Audit Sampling*, Appendix 3

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because there is a particular risk of management bias affecting accounting estimates due to their subjective, potentially complex and uncertain nature.	management bias or fraud in making accounting estimates due to their subjective, potentially complex and uncertain nature.	
6. This ISA requires an evaluation of accounting estimates based on the audit procedures performed and the audit evidence obtained. In doing so, the auditor is required to evaluate whether the accounting estimates, and related disclosures, are reasonable in the context of the applicable financial reporting framework. (Ref: Para. A2–A3).	8. This ISA requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable[11] in the context of the applicable financial reporting framework, or are misstated. For purposes of this ISA, reasonable in the context of the applicable financial reporting framework means that the relevant requirements of the applicable financial reporting framework have been applied appropriately, including those that address: (Ref: Para. A10–A11) • The making of the accounting estimate, including the selection of the method, assumptions and data from alternatives in view of the nature of the accounting estimate and the facts and circumstances of the entity; • The selection of management's point estimate; and	Expanded wording to give introductory explanation of "reasonable" (bullet points elevated from application material in A2 of ED-540).

[11] See also ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 13(c)

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	• The disclosures about the accounting estimate, including disclosures about how the accounting estimate was developed and that explain the nature, extent, and sources of estimation uncertainty.	
Effective Date		
7. This ISA is effective for audits of financial statements for periods beginning on or after [TBA].	9. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 201X.	See **Agenda Item 2**.
Objective		
8. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether: (a) Accounting estimates, whether recognized or disclosed in the financial statements; and (b) Related disclosures in the financial statements, are reasonable in the context of the applicable financial reporting framework.	10. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework.	Revised and streamlined in response to respondent and Board comments. However, the principal objective remains to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework.

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Definitions		
9. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Accounting estimate – A monetary amount, prepared in accordance with the requirements of the applicable financial reporting framework, the measurement of which is subject to estimation uncertainty. (Ref: Para. A4) (b) Auditor's point estimate or auditor's range – An amount, or range of amounts, respectively, developed by the auditor in evaluating management's point estimate. (Ref: Para. A5) (c) Estimation uncertainty – The susceptibility of an accounting estimate to an inherent lack of precision in its measurement. (Ref: Para. A6) (d) Management bias – A lack of neutrality by management in the preparation of information. (Ref: Para. A7) (e) Management's point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.	11. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Accounting estimate – A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty. (Ref: Para. A12) (b) Auditor's point estimate or auditor's range – An amount, or range of amounts, respectively, developed by the auditor in evaluating management's point estimate. (Ref: Para. A13) (c) Estimation uncertainty – Susceptibility to an inherent lack of precision in measurement. (Ref: Para. A14, Appendix 1) (d) Management bias – A lack of neutrality by management in the preparation of information. (Ref: Para. A15) (e) Management's point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.	Wording changes to clarify the definitions in response to comments and further Board discussion.

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(f) Outcome of an accounting estimate – The actual monetary amount that results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by an accounting estimate. (Ref: Para A8)	(f) Outcome of an accounting estimate – The actual monetary amount that results from the resolution of the transaction(s), event(s) or condition(s) addressed by an accounting estimate. (Ref: Para. A16)	
Risk Assessment Procedures and Related Activities		
10. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including its internal control, as required by ISA 315 (Revised),[12] the auditor shall obtain an understanding of the following: (Ref: Para. A9–A10) [Color coding shows the restructuring of paragraph 10 of ED-540 in response to calls for greater clarity. The movement of paragraphs is also explained in the right hand column.]	12. When obtaining an understanding of the entity and its environment, including the entity's internal control, as required by ISA 315 (Revised),[13] the auditor shall perform risk assessment procedures to the extent necessary to obtain an understanding of the following matters related to the entity's accounting estimates to provide an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Ref: Para. A17–A20)	Paragraph 8(a) of **Agenda Item 2-F** also explains the changes to paragraph 12 and the rationale for them.
(a) The requirements of the applicable financial reporting framework relevant to accounting estimates, including the recognition criteria, measurement bases and the related presentation and	*The Entity and Its Environment* (a) The entity's transactions and other events and conditions that may give rise to the need for, or changes in,	Paragraph 12(a) is based on ED paragraph 10(d).

12 ISA 315 (Revised), paragraphs 5–6 and 11

13 ISA 315 (Revised), paragraphs 3, 5–6, 9, 11–12, 15-17, and 20-21

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disclosure requirements. (Ref: Para. A11–A13)	accounting estimates to be recognized or disclosed in the financial statements. (Ref: Para. A21)	
(b) Regulatory factors, if any, relevant to accounting estimates.[14] (Ref: Para. A14–A15)	(b) The requirements of the applicable financial reporting framework, including the recognition criteria, measurement bases, and the related presentation and disclosure requirements. (Ref: Para. A22–A23)	Paragraph 12(b) is based on ED paragraph 10(a).
(c) The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements. (Ref: Para. A16–A17)	(c) Regulatory factors relevant to the entity's accounting estimates. (Ref: Para. A24)	Paragraph 12(c) is based on ED paragraph 10(b).
(d) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise	(d) The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements, based on the auditor's understanding of the matters in 10(a)–(c) above. (Ref: Para. A25)	Paragraph 12(d) is based on ED paragraph 10(c). Added to clarify how paragraphs 12(a)-(d) work together.

[14] ISA 315 (Revised), paragraph 11(a)

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existing, accounting estimates. (Ref: Para. A18–A23)		
	The Entity's Internal Control Relevant to the Audit	
	(e) The nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates. (Ref: Para. A17A–A17C).	Broken out from ED-540 paragraph 10(f).
(e) How management makes accounting estimates, including: (Ref: Para. A24–A25) (i) The methods used, how they are selected or designed, and how they are applied, including the extent to which they involve modelling; (Ref: Para. A26–A31) (ii) The process used to select assumptions, including alternatives considered and how management identifies significant assumptions; (Ref: Para. A32–A38) (iii) The process used to select data, including the source(s) of that data and how management identifies	(f) How management identifies the need for, and applies, specialized skills or knowledge related to accounting estimates, including with respect to the use of a management's expert. (Ref: Para. A17D) (g) How the entity's risk assessment process identifies and addresses risks relating to accounting estimates to assist the auditor in understanding the effects of the inherent risk factors, including with respect to estimation uncertainty and susceptibility to fraud and management bias. (Ref: Para. A17E–A17G)	Paragraph 12(f) is based on ED paragraph 10(e)(iv). Paragraph 12(g) based on ED-540, paragraphs 10(e)(v) and (vi).

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significant data; (Ref: Para. A39–A42)	(h) The entity's information system relating to accounting estimates, including: (Ref: Para. A25–A25A)	
(iv) The extent to which management has applied specialized skills or knowledge, including whether a management's expert has been used; (Ref: Para. A43–A44) (v) How the risk of management bias is identified and addressed; (Ref: Para. A45) (vi) How management has addressed estimation uncertainty; and (Ref: Para. A46)	(i) The classes of transactions, or events and conditions other than transactions, that are significant to the financial statements and that give rise to the need for, or changes in, accounting estimates and related disclosures; and(Ref: Para. A25-A25Aa)	Paragraph 12(h)(i) based on ED-540 paragraph 10(d).
(vii) How management has addressed the need for a change from the prior period in the methods, assumptions or data used, and if so, the nature of, and reasons for, such changes. (Ref: Para. A47).	(ii) For such accounting estimates and related disclosures, how management: a. Identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable financial reporting framework, including how management: (Ref: Para. A25B–A25D)	Paragraph 12(h)(ii)(a) is based on ED paragraph 10(e)(vii).
	(i) Selects or designs, and applies, the methods used, including the use	Paragraph 12(h)(ii)(a)(i) is based on ED paragraph 10(e)(i).

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	of models; (Ref: Para. A26–A30)	
	(ii) Selects the assumptions to be used, including consideration of alternatives, and identifies significant assumptions; (Ref: Para. A33–A38); and	Paragraph 12(h)(ii)(a)(ii) is based on ED paragraph 10(e)(ii).
	(iii) Selects the data to be used; (Ref: Para. A35, A41)	Paragraph 12(h)(ii)(a)(iii) is based on ED paragraph 10(e)(iii).
	b. Understands the degree of estimation uncertainty, including through considering the range of possible measurement outcomes; and (Ref: Para. A41AA)	Broken out from ED-540 paragraph 10(f).
	c. Selects a point estimate and related disclosures for inclusion in the financial statements. (Ref: Para.A41A–A42D)	Broken out from ED-540 paragraph 10(f).
(f) Each of the components of internal control as they relate to making		ED-540 paragraph 10(f) now 12(e), 12(h)(ii)b-c, 12(i) and 12(j).

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accounting estimates.[15] (Ref: Para. A48–A60)		
	(i) Control activities relevant to the audit over management's process for making accounting estimates (see paragraph 10(i)(ii)). (Ref: Para. A58–A58D)	Broken out from ED-540 paragraph 10(f).
	(j) How management reviews the outcome(s) of previous accounting estimates and responds to the results of that review.	Broken out from ED-540 paragraph 10(f).
11. The auditor shall review the outcome of accounting estimates included in the previous period financial statements, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risk of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A61–A66)	13. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A54–A59)	The requirement has been amended to address "previous accounting estimates' and not just be limited to those in the previous period financial statements.

15 ISA 315 (Revised), paragraphs 14–24

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12. The auditor shall determine whether specialized skills or knowledge are required, in order to perform the risk assessment procedures, or to identify and assess the risks of material misstatement. (Ref: Para. A67–A70)	14. With respect to accounting estimates, the auditor shall determine whether the engagement team requires specialized skills or knowledge to perform the risk assessment procedures, to identify and assess the risks of material misstatement, to design and perform audit procedures to respond to those risks, or to evaluate the audit evidence obtained. (Ref: Para. A60–A62)	Now merged with paragraph14 from ED-540.
Identifying and Assessing the Risks of Material Misstatement		
13. In applying ISA 315 (Revised), the auditor is required to identify and assess the risks of material misstatement, at the financial statement and assertion levels, and to determine whether any of the risks of material misstatement identified are, in the auditor's judgment, significant risks. In identifying and assessing risks of material misstatements in relation to an accounting estimate, the auditor shall take into account the extent to which the accounting estimate is subject to, or affected by, one or more, relevant factors, including: (Ref: Para. A71–A78) (a) Complexity in making the accounting estimate, including:	15. In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, as required by ISA 315 (Revised),[16] the auditor shall separately assess inherent risk and control risk, taking the following into account in making the assessment of inherent risk: (Ref: Para. A63–A70) (a) The degree to which the accounting estimate is subject to estimation uncertainty; and (Ref: Para. A71–A73) (b) The degree to which the following are affected by complexity, subjectivity, or	See paragraph 8(b) of **Agenda Item 2-F** which explains the changes and the rationale for them.

[16] ISA 315 (Revised), paragraph 25 and 26

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(i) The extent to which the method, including modelling, involves specialized skills or knowledge; and (Ref: Para. A79–A81) (ii) The difficulty, if any, in obtaining relevant and reliable data and maintaining the integrity of that data; (Ref: Para. A82) (b) The need for the use of judgment by management and the potential for management bias, including with respect to methods, assumptions, and data; and (Ref: Para. A83–A85) (c) Estimation uncertainty, including the extent to which the accounting estimate is sensitive to the selection of different methods or to variations in the assumptions and data used. (Ref: Para. A86–A93)	other inherent risk factors: (Ref: Para. A74–A77) (i) The selection and application of the method, assumptions and data in making the accounting estimate; or (ii) The selection of management's point estimate and related disclosures for inclusion in the financial statements.	
	16. The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 15 are, in the auditor's judgment, a significant risk.[17] If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls,	Consideration of significant risks separated out from paragraph 13 of ED-540. Second sentence is identical to ISA 315 (Revised), paragraph 29.

[17] ISA 315 (Revised), paragraph 27

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	including control activities, relevant to that risk.[18] (Ref: Para. A78-A80)	
Responses to the Assessed Risks of Material Misstatement		
14. In responding to the assessed risks of material misstatement related to accounting estimates, the auditor shall determine whether specialized skills or knowledge are required to design and perform audit procedures, or to evaluate the results of those procedures. (Ref: Para. A67–A70)		Paragraph 14 of ED 540 is now merged with paragraph 12 of ED -540.
15. In applying ISA 330, the auditor is required to design and perform further audit procedures to respond to the assessed risks of material misstatement, including significant risks, at the assertion level. In doing so: (Ref: Para A94–A95) (a) When inherent risk is low, the auditor shall determine whether one or more of the following further audit procedures would provide sufficient appropriate audit evidence regarding the assessed	17. As required by ISA 330,[19] the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement[20] at the assertion level, considering the reasons for the assessment given to those risks. The auditor's further audit procedures shall include one or more of the following approaches: (a) Considering events occurring up to the date of the auditor's report (see paragraph 20); (b) Testing how management made the accounting estimate (see paragraphs	See paragraph 8(c) of **Agenda Item 2-F** which explains the changes and the rationale for them.

18 ISA 315 (Revised), paragraph 29

19 ISA 330, paragraphs 6-15 and 18

20 ISA 330, paragraphs 6-7 and 21

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risk(s) of material misstatement in the circumstances: (Ref: Para A96) (i) Obtaining audit evidence about events occurring up to the date of the auditor's report; (ii) Testing how management made the accounting estimate and the data on which it is based; or (iii) Developing a point estimate or range based on available audit evidence to evaluate management's point estimate. (b) When inherent risk is not low, the auditor's further audit procedures shall include procedures to obtain audit evidence about the matters in paragraphs 17–20, when applicable. (Ref: Para A97) The auditor's further audit procedures shall be responsive to the reasons for the assessment given to the risk of material misstatement in accordance with paragraph 13, recognizing that the higher the assessed risk of material	21-26); or (c) Developing an auditor's point estimate or range (see paragraphs 27-28). The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.[21] The auditor shall design and perform the further audit procedures to obtain sufficient appropriate audit evidence in a manner that is neither biased towards obtaining audit evidence that may be corroborative nor biased towards not obtaining audit evidence that may be contradictory. (Ref: Para. A81–A84)	

21 ISA 330, paragraph 7(b)

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misstatement the more persuasive the audit evidence needs to be.		
16. If the auditor intends to rely on controls relating to accounting estimates, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to their operating effectiveness.[22] (Ref: Para A98–A100)	18. As required by ISA 330,[23] the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, if: (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. The auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. The auditor also shall take into account that the greater the reliance the auditor places on the effectiveness of a control, the more persuasive the audit evidence needs to be.[24] (Ref: Para. A85–A89)	Enhanced to more fully reflect the underlying requirements in ISA 330. The last sentence is taken from ISA 330, paragraph 9.

22 ISA 330, paragraph 8

24 ISA 330, paragraph 9

24 ISA 330, paragraph 9

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	19. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to rely on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.[25]	These sentences are drawn from ISA 330, paragraphs 15 and 21.
		Paragraph 8(d) of **Agenda Item 2-F** explains the changes to paragraph 20-28 and the rationale for them.
Complexity 17. In complying with paragraph 15(b), when the reasons for the assessment given to the risk of material misstatement include complexity related to management's use of a complex method (including complex modelling), or when management's method otherwise involves the use of specialized skills or knowledge, the auditor shall obtain sufficient appropriate audit evidence about the following matters: (Ref: Para A101–A104) [Color coding shows the restructuring of the objective based requirements in the revised approach adopted in response to calls for	*Considering Events Occurring up to the Date of the Auditor's Report* 20. When the auditor's further audit procedures include considering events occurring up to the date of the auditor's report, the auditor shall consider whether the audit evidence obtained through performing those procedures: (Ref: Para. A90–A93) (a) Corroborates or contradicts relevant assertions relating to the accounting estimate; and (b) Is sufficient and appropriate to address the risks of material misstatement at the	Previously in paragraph 15(a)(i) but supplemented to provide clarity.

[25] ISA 330, paragraphs 15 and 21

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greater clarity in approach. The movement of paragraphs is also explained in the right hand column.] (a) Whether the method, and significant data and significant assumptions, are appropriate in the context of the applicable financial reporting framework; (b) Whether significant data is relevant and reliable.[26] (c) Whether management has appropriately understood or interpreted significant data, including with respect to contractual terms. (Ref: Para. A105) (d) Whether the integrity of significant data and significant assumptions has been maintained in applying the method; and (Ref: Para. A106) (e) Whether the calculations are mathematically accurate and appropriately applied. *Judgment* 18. In complying with paragraph 15(b), when the reasons for the assessment given to the risk of material misstatement include the need for the use of judgment by management, the auditor	assertion level, taking into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect the relevance of such audit evidence. *Testing How Management Made the Accounting Estimate* 21. When testing how management made the accounting estimate, the auditor shall include further audit procedures designed and performed in accordance with paragraphs 22 to 26, to obtain sufficient appropriate audit evidence to address the risks of material misstatement relating to: (Ref: Para. A94) (a) The selection and application of the methods, significant assumptions, and data used by management in making the accounting estimate; and (b) How management selected the point estimate and developed related disclosures about estimation uncertainty.	 Paragraph 21 is a signposting paragraph that sets up the approach of testing how management made the accounting estimate.

[26] ISA 500, paragraph 7

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shall obtain sufficient appropriate audit evidence about the following matters: (a) When the accounting estimate involves the use of significant data or significant assumptions: (i) Whether management's judgments regarding the selection and use of the method and the significant data and significant assumptions: (Ref: Para A107) a. Are appropriate in the context of the measurement objectives and other requirements of the applicable financial reporting framework; or b. Give rise to indicators of possible management bias. (ii) Whether management's judgments about changes from previous periods in the method or the significant data or significant assumptions, are appropriate (Ref: Para. A108–A110). (iii) Whether significant assumptions are consistent with each other and with those used in other	Methods 22. With respect to methods, the auditor's further audit procedures shall address: (a) Whether the method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; (Ref: Para. A95-A97) (b) Whether judgments made in selecting the method give rise to indicators of possible management bias; (Ref: Para. A98) (c) Whether the calculations are applied in accordance with the method and are mathematically accurate; (d) When management's application of the method involves complex modelling, whether judgments have been applied consistently and whether, when applicable: (Ref: Para. A99–A101) (i) The design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's	Paragraph 22(a) is based on ED paragraph 17(a), 18(a)(i)(a) and 18(a)(ii). Paragraph 22(b) is based on ED paragraph 18(a)(i)(b). Paragraph 22(c) is based on ED paragraph 17(e). Paragraph 22(d) is based on ED paragraph 18(c).

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accounting estimates or with assumptions used in other areas of the entity's business activities.	model are appropriate in the circumstances; and	
(b) When relevant to the appropriateness of the significant assumptions or the appropriate application of the requirements of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para. A111);	(ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances; and	
	(e) Whether the integrity of the significant assumptions and data has been maintained in applying the method. (Ref: Para. A102)	Paragraph 22(e) is based on ED paragraph 17(d).
(c) When management's application of the method involves complex modelling, whether judgments made have been applied consistently and whether, when applicable:	Significant Assumptions 23. With respect to significant assumptions, the auditor's further audit procedures shall address:	
(i) The design of the model meets the measurement objective of the applicable financial reporting framework and is appropriate in the circumstances;	(a) Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; (Ref: Para. A97, A103-A104)	Paragraph 23(a)) is based on ED paragraph 17(a), 18(a)(i)(a) and 18(a)(ii).
(ii) Changes, if any, from the previous period's model are appropriate in the circumstances; and		
(iii) Adjustments, if any, to the output of the model are consistent with the measurement objective of the applicable financial reporting	(b) Whether judgments made in selecting the significant assumptions give rise to indicators of possible management bias; and (Ref: Para. A98)	Paragraph 23(b) is based on ED paragraph 18(a)(i)(b).
	(c) Whether the significant assumptions are	

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framework and are appropriate in the circumstances. (Ref: Para A112)	consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and (Ref: Para. A105)	Paragraph 23(c) is based on ED paragraph 18(a)(iii).
Estimation Uncertainty	(d) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para. A106)	Paragraph 23(d) is based on ED paragraph 18(b).
19. In complying with paragraph 15(b), when the reasons for the assessment given to the risk of material misstatement include estimation uncertainty:	Data	
(a) The auditor shall obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework:	24. With respect to data, the auditor's further audit procedures shall address:	
(i) Management has taken appropriate steps to understand and address the estimation uncertainty, and develop a point estimate that meets the measurement objective; and (Ref: Para. A113–A115)	(a) Whether such data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate (Ref: Para. A97, A107);	Paragraph 24(a)) is based on ED paragraph 17(a), 18(a)(i)(a) and 18(a)(ii).
(ii) Management's point estimate is reasonable, and the disclosures in the financial statements that describe the estimation uncertainty are reasonable. (Ref: Para. A116–A125)	(b) Whether judgments made in selecting the data give rise to indicators of possible management bias; and (Ref: Para. A98)	Paragraph 24(b) is based on ED paragraph 18(a)(i)(b).
(b) When, based on the audit evidence obtained, in the auditor's judgment,	(c) Whether such data is relevant and reliable in the circumstances; and (Ref: Para. A108)	Paragraph 24(c) is based on ED paragraph 17(b).
	(d) Whether data has been appropriately	Paragraph 24(d) is based on ED paragraph

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management has not appropriately understood and addressed the estimation uncertainty, the auditor shall, to the extent possible, develop an auditor's point estimate or range to enable the auditor to evaluate the reasonableness of management's point estimate and the related disclosures in the financial statements that describe the estimation uncertainty. (Ref: Para A126–A134)	understood or interpreted by management, including with respect to contractual terms. (Ref: Para. A109)	17(c).
	Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty	
20. If the auditor concludes that it is appropriate to develop an auditor's range, the auditor shall only include in that range amounts that: (a) Are supported by the audit evidence; and (b) The auditor has evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.	25. The auditor's further audit procedures shall address whether, in the context of the applicable financial reporting framework: (a) Management has taken appropriate steps to understand and address the estimation uncertainty, and to develop a point estimate that meets the measurement objective; and (Ref: Para. A110) (b) Management's point estimate and the related disclosures about estimation uncertainty are reasonable. (Ref: Para. A111–A115)	Paragraph 25 is based on ED paragraph 19(a).
	26. When, in the auditor's judgment based on the audit evidence obtained, management has not taken appropriate steps to understand and address the estimation uncertainty, the auditor shall:	Paragraph 26 is based on ED paragraph 19(b).
	(a) Request management to consider alternative assumptions or perform sensitivity analyses, or provide additional disclosures relating to the	This was added in response to comments that management should be asked to take

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	estimation uncertainty, and evaluate management's response in accordance with paragraph 25;	appropriate steps before the auditor contemplates further actions.
	(b) If the auditor determines, based on management's response to the auditor's request, that management still has not taken appropriate steps to understand and address the estimation uncertainty, to the extent possible, develop an auditor's point estimate or range to enable the auditor to evaluate the reasonableness of management's point estimate and the related disclosures about estimation uncertainty; and (Ref: Para. A116–A117)	Paragraph 26(b) is based on ED paragraph 19(a).
	(c) Evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with ISA 265.[27]	This was added in response to comments that, while ED-540 had application material on the relationship with ISA 265 (see paragraph A156), a requirement was needed here given the possibility of an internal control deficiency.
	Developing an Auditor's Point Estimate or Range	
	27. When the auditor develops a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, the auditor shall include further audit procedures to evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable	See **Agenda Item 2-A** which explains the changes and the rationale for them.

[27] ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

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	financial reporting framework. Regardless of whether the auditor uses management's or the auditor's own methods, assumptions or data, these further audit procedures shall be designed and performed to address the matters in paragraphs 22-24. (Ref: Para. A118–A123)	
	28. If the auditor develops an auditor's range, the auditor shall:	
	(a) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence, and have been evaluated by the auditor to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework; and (Ref: Para. A124-A125)	Paragraph 28(a) is based on ED paragraph 20.
	(b) Design and perform further audit procedures to obtain sufficient appropriate audit evidence to address the risks of material misstatement relating to the disclosures in the financial statements that describe the estimation uncertainty.	This requirement was added to highlight that evidence is required to be obtained regarding disclosures about estimation uncertainty if this testing approach is selected so that paragraph 21 can focus on whether the disclosures overall are reasonable.

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	Other Considerations Relating to Audit Evidence 29. Regardless of whether the audit evidence obtained in performing the procedures in paragraphs 20-28 relates to information that is produced by the entity, obtained from an external information source, prepared using the work of a management's expert or independently obtained by the auditor, the auditor also shall comply with the relevant requirements in ISA 500.[28] (Ref: Para. A126–A129)	This requirement is a link to ISA 500 and does not add to the auditor's obligations under ISA 500.
Disclosures Related to Accounting Estimates		
21. The auditor shall obtain sufficient appropriate audit evidence about whether the disclosures related to accounting estimates are reasonable in the context of the requirements of the applicable financial reporting framework including: (Ref: Para. A135–A138) (a) In the case of a fair presentation framework, whether management has provided the disclosures beyond those specifically required by the framework that are necessary to achieve the fair	30. The auditor's further audit procedures shall address whether the disclosures related to an accounting estimate are reasonable in the context of the applicable financial reporting framework. (Ref: Para. A130)	Sub-bullets (a) and (b) moved to paragraph 23.

28 ISA 500, paragraphs 7 and 8

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presentation of the financial statements as a whole, or (b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading.		
Overall Evaluation Based on Audit Procedures Performed		
22. In applying ISA 330[29] to each accounting estimate for which the auditor's further audit procedures are required to address the matters in paragraphs 17–19, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A139–A141) (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified; (b) Sufficient appropriate audit evidence has been obtained; and (c) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting	32. In applying ISA 330 to each accounting estimate, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A135-A137) (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified; (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and	Simplification of the lead in and reordering (b) and (c) to improve clarity.

29 ISA 330, paragraphs 25 and 26

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estimates in the financial statements are in accordance with the applicable financial reporting framework.	(c) Sufficient appropriate audit evidence has been obtained.	
	33. In making the evaluation required by paragraph 32(c), the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.[30] If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).[31]	Moved from para 23 for greater prominence and text added to clarify that the evaluation includes implications for the auditor's opinion in accordance with ISA 705.
23. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. In making this evaluation, the auditor shall consider all relevant audit evidence obtained whether corroborative or contradictory. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the	*Determining Whether the Accounting Estimates are Reasonable or Misstated* 34. For each class of transactions, account balance or disclosure that includes an accounting estimate, the auditor shall determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting	The following changes were made: • Lead-in: see **Agenda Item 2-A**; • Sub-bullets (a) and (b) are from ED-540, paragraph 21; and • Hanging paragraph is elevated from ED-540, paragraph A142.

30 ISA 500, paragraph 11

31 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

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implications for the audit.[32] (Ref: Para. A2, A142–A146)	framework, or are misstated. In addition, the auditor shall evaluate: (Ref: Para. A10–A11) (a) In the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole; or (b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading. ISA 450[33] provides guidance on distinguishing misstatements (whether factual, judgmental, or projected) for the auditor's evaluation of the effect of uncorrected misstatements on the financial statements. (Ref: Para. A138–A143)	
Indicators of Possible Management Bias		
	The paragraph that requires the auditor to evaluate whether there are indicators of possible management bias has been moved to precede the stand back	Last sentence elevated from paragraph A149 of ED-540.

32 ISA 330, paragraph 27

33 ISA 450, paragraph A6

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	requirement. For comparison purposes it has been included here.	
24. The auditor shall evaluate whether judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate possible bias on the part of the entity's management. When indicators of possible bias are identified the auditor shall evaluate the implications for the audit. (Ref: Para. A147–A152)	31. The auditor shall evaluate whether judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. When bias in making an accounting estimate is intentional, it is fraudulent in nature. (Ref: Para. A131–A134)	
Written Representations		
25. The auditor shall obtain written representations from management and, when appropriate, those charged with governance that they believe the methods, significant data, and significant assumptions used in making the accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. The auditor shall also consider the need to obtain representations about specific accounting estimates, including in relation to the methods,	35. The auditor shall obtain written representations from management and, when appropriate, those charged with governance about whether the methods, significant assumptions, and data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework. The auditor shall also consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used. (Ref: Para. A144)	'Significant data' removed and other edits for clarity.

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assumptions, or data used. (Ref: Para. A153–A154)		
Communication with Those Charged With Governance or Management		
26. In applying ISA 260 (Revised)[34] and ISA 265,[35] the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively. In doing so, the auditor shall consider the matters, if any, to communicate related to the extent to which the accounting estimates and their related disclosures are affected by, or subject to, complexity, the need for the use of judgment by management, estimation uncertainty, or other relevant factors. (Ref: Para. A155–A157)	36. In applying ISA 260 (Revised)[36] and ISA 265,[37] the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively. In doing so, the auditor shall consider the matters, if any, to communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors in making accounting estimates and related disclosures. (Ref: Para. A145–A147)	Edits to better align with para 13.

[34] ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16(a

[35] ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* paragraph 9

[36] ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16(a)

[37] ISA 265, paragraph 9

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Documentation		
27. The audit documentation shall include:[38] (a) The basis for the auditor's evaluation of the reasonableness of the accounting estimates and related disclosures; and (b) Indicators of possible management bias, if any, and the auditor's evaluation thereof in forming the auditor's opinion on whether the financial statements as a whole are materially misstated. (Ref: Para. A158–A159)	37. The auditor shall include in the audit documentation:[39] (Ref: Para. A148–A152) (a) Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates; (b) The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level,[40] taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks; (c) The auditor's response when management has not taken appropriate steps to understand and address estimation uncertainty; (d) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the	See paragraph 8(e) of **Agenda Item 2-F** which explains the changes and the rationale for them.

38 ISA 230, *Audit Documentation*

39 ISA 230, *Audit Documentation*, paragraphs 8, A6, A7 and A10

40 ISA 330, paragraph 28(b)

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	implications for the audit; and (e) Significant professional judgments[41] relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.	

[41] ISA 230, paragraphs 8(c) and A8