August 1, 2017

International Auditing and Assurance Standards Board
International Federation of Accountants
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Via IAASB website at www.iaasb.org

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Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standards Board's ("IAASB") Exposure Draft – Proposed International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures ("ED 540").

We welcome the efforts to revise ISA 540[1] in light of increasing use and complexity of accounting estimates in today's financial statements.

It is important that the standard is drafted in a way that can be understood by the users, i.e. the standard should be written in "plain English." In order to accomplish this, we are of the view that some of the information and explanations in the accompanying Explanatory Memorandum should be incorporated into the proposed standard. We have included specific suggestions in this area in our more detailed responses below.

We acknowledge the IAASB's efforts with respect to scalability by requiring that estimates be categorized as "low inherent risk" and "not low inherent risk." However, ED 540 does not provide guidance on whether it is possible to have an estimate that is "material only" (i.e. an estimate above the determined materiality level for the audit that has little or no assessed risk) and if so how the auditor would differentiate between an estimate that is low risk and an estimate that is material only. For example, it is common for an entity to record property, plant and equipment in its balance sheet, on which a depreciation charge is required to be calculated as an estimate of the use of that asset. Depending on the relative size of the property, plant and equipment balance, the depreciation calculated may result in a charge in the financial statements that is above the determined materiality for the audit. However, based on the nature of that property, plant and equipment, the well-established parameters for determining the useful life

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

of that category of asset and the lack of complexity to the calculation, it may be determined that little or no risk attaches to this estimate. As such, it is possible that the depreciation charge would be considered to be material only. We are therefore of the view that the IAASB should clarify the application of these requirements in order for auditors to appropriately and to consistently apply the revised standard.

Overall, we support the identification of the factors that drive the inherent risk of estimates; however, we are of the view that the IAASB should consider how this approach can be applied in practice by auditors. Our concerns include (1) whether there is benefit to separating the factors of estimation uncertainty, complexity and judgment; and (2) how the three factors interact and if it is necessary to develop separate procedures for each of these three factors. Although the requirements addressing how the auditor obtains sufficient appropriate audit evidence for each of the three factors are expressed as matters over which the auditor should obtain sufficient appropriate audit evidence, the practical application of these requirements is that the matters will become a checklist that the auditor will work through to be "certain" of obtaining sufficient audit evidence. This may not result in the most effective and efficient approach to the audit of estimates. This level of unintended prescription in the requirements would also represent a departure from a principles-based standard.

We are also concerned with the direction of paragraph 19(b) of ED 540, which, as currently written, would appear to suggest that if management is unable to develop a reasonable estimate, the auditors are responsible for its development. We are of the view that, in addition to blurring the line between the responsibilities of management and those of the auditor, it is not reasonable to expect, or provide the impression, that the auditor will be able to develop a range of acceptable values if management is unable to do so. If management is unable to develop a reasonable estimate, we are of the view that this would lead to a limitation of the scope of an audit that would accordingly be reflected in the audit opinion. Without the elimination of this requirement from the standard or further clarification of the intention of this requirement, it has the potential to be a fatal flaw.

We welcomed the opportunity provided by the IAASB to participate in the field-testing of ED 540 and have included some of our observations in our response below.

Of further note, the Public Company Accounting Oversight Body (PCAOB) issued Docket 43: *Proposed Auditing Standard for Auditing Accounting Estimates, Including Fair Value Measurements*, on June 1, 2017 and we note that the PCAOB's proposed changes build on the existing approach to auditing estimates. We further note significant differences between the PCAOB's proposals and those of the IAASB. We would recommend consideration of whether further consistency can be achieved between the two standards.

We respectfully submit our detailed responses to the IAASB's ED 540, which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at sara.hm.ashton@uk.gt.com or at +44 207 728 2236.

Sincerely,

Antony Nettleton
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Grant Thornton International Ltd

Enc: Responses to Proposed International Standard on Auditing 540 and Detailed Drafting Comments

Responses to the Proposed International Standard on Auditing 540 (Revised)

The following provides our input in response to the IAASB's Proposed International Standard on Auditing 540 (Revised).

QUESTIONS

OVERALL QUESTIONS

Q1. Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?

Overall, the results of the field-testing indicated that the structure of ED 540 was overly complex. The three basic approaches in ED 540 are contained within the approach to low inherent risk estimates, when in practice, one or a combination of these approaches are applied to all estimates subject to audit, irrespective of the risk category. We are of the view that it would be preferable to follow a more simplified structure that clearly sets out the basic approaches to auditing estimates and then builds on how the auditor would apply each of these basic approaches to the audit of estimates.

The updates to ED 540 do, however, provide a framework to address the auditing of estimates, which could form a basis to deal with evolving financial reporting frameworks as they relate to accounting estimates. However, we are of the view that certain matters, as detailed in our response, need to be addressed.

We highlight the following matters for consideration in this respect:

- Paragraph 10(b) of ED 540 requires the auditor to obtain an understanding of "regulatory factors, if any, relevant to accounting estimates." Whilst this paragraph better links the audit of accounting estimates to the regulatory requirements of banking institutions, it could be interpreted very broadly and consequently encompass other non-financial regulatory factors.

- The requirements in ED 540 give the appearance of being a mixture of principles-based requirements and procedural requirements. For example, in accordance with our comments below, paragraphs 17-19 are effectively procedural based requirements. We are of the view that the standard should maintain principles-based requirements throughout.

- The application material as currently drafted has a bias towards estimates related to financial instruments. We would recommend identification of areas where the application material could be updated to encompass all types of estimates.

- The guidance on use of an external expert is helpful as this is becoming more commonplace in audits. We would also recommend consideration of the importance of the integrity of the data and the value of data obtained from different sources as well as guidance on the validity of the model.

Q2. Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?

Professional skepticism is particularly relevant in the audit of accounting estimates and we support the acknowledgment of this in the key concepts section of ED 540. We agree with a number of the IAASB's decisions in this regard, including

- The inclusion of requirements and application material that assist the auditor in how to apply professional skepticism;

- The introduction of a requirement to consider both contradictory and corroborative evidence in paragraph 23 of ED 540 when evaluating whether an estimate is misstated.

- The revision of the requirement in respect of management bias, to consider indicators of management bias in aggregate, even if accounting estimates made by management are individually reasonable.

We also make the following observations:

- The "stand back" provision in paragraph 22 and 23 could be more explicit. It is not clear if this would be required when the inherent risk assessment is low or just when the inherent risk assessment is not low. (Also, see our comments under Question 6).

- By directing the auditor to ISA 315 (Revised)[2] and ISA 330[3] for estimates with low inherent risk, it is not clear whether the auditor is only required to comply with the requirements in paragraph 15(a)(i) – 15(a)(iii) of ED 540 or if the requirements that follow may also be relevant to these estimates. In particular, we are of the view that the requirements concerning the application of professional skepticism should apply to all estimates, including those with a low inherent risk and that this should be made more explicit within ED 540.

- Paragraph 24 of ED 540 requires that when the auditor identifies indicators of possible bias, the implications for the audit should be evaluated. We are of the

[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 Response to Assessed Risks*

view that in all circumstances there will be management bias and it is *inappropriate* management bias that the auditor needs to address in determining whether there are any implications for the audit. It is also unclear what the auditor is required to document in this respect.

- Application material paragraph A101 states that: "when management uses a complex method, an important factor that the auditor may need to consider regarding the appropriateness of the method, and significant data and significant assumptions, is whether there were other available valuation concepts, techniques or factors, types of assumptions or source data that, in the circumstances, might have been more appropriate, or more generally accepted, in the context of the applicable financial reporting framework." This could be interpreted too broadly and require the auditor to consider all possible options to determine which is the most appropriate rather than those options that would be considered reasonable.

FOCUS ON RISK ASSESSMENT RESPONSES

Q3. Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including where there is low inherent risk?

We are of the view that the revisions to ED 540 do provide some level of flexibility and scalability through the separation of estimates between those that are low inherent risk and those that are not low and by providing different levels of required work effort based on those categorizations. However, by setting a threshold of low, there is a risk that this will detract the auditor's attention from performing the necessary audit procedures to obtain sufficient appropriate audit evidence over the estimate, to focusing on the classification of the estimate into the category of either low or not low. A further challenge may arise for auditors in evaluating whether the results of the audit procedures performed cause a re-evaluation of the initial determination of the estimate's category from the low risk category to the not low risk category or vise-versa.

We also make the following observations in respect of the proposed revisions:

Risk of Material Misstatement

- Separating estimates between those that are of low inherent risk and those that are not low may imply that all estimates have to be addressed by the auditor, irrespective of their materiality. If the intention was not to require all estimates to be addressed by the auditor, it is not clear if this could create a new category of "less than low" or remote risk.

- The move to an assessment of inherent risk, rather than the overall risk of material misstatement, in the determination of the risk of the estimate and, accordingly, the resulting work effort, is generally a departure from current requirements in other standards,[4] which allow a starting point of risk of material misstatement. Consideration needs to be given to weighing the cost of training staff in respect of these potential methodology changes against any potential perceived benefits.

- The risk assessment process as described in ED 540, and how the auditor is expected to respond to the assessed risk is unclear. The discussion in the Explanatory Memorandum, particularly paragraphs 26(d) and 28 are helpful in clarifying what appears to be the intention of the IAASB in this area. We would recommend consideration of including some of this text in the standard itself.

- Paragraph 10(f) of ED 540 requires the auditor to gain an understanding of each of the components of internal control as they relate to making accounting estimates. Whilst these are important considerations, it is not clear whether this is incremental to the requirement of ISA 315 (Revised); whether specific documentation is required of how each element of control addresses estimates or whether this is a duplication of the requirements contained within ISA 315 (Revised). The results of field-testing also indicated that it was not always clear exactly what the auditor was required to gain an understanding of.

Inherent Risk is determined to be Not Low

- ED 540 requires the auditor to evaluate whether the risk of material misstatement of the estimate is due to (1) complexity, (2) judgment or (3) estimation uncertainty. If one or more of these factors are present, then the auditor must design procedures to provide evidence about matters related to each of those factors. However, where the inherent risk of the estimate is determined to be not low, the proposed construct of paragraphs 14 and 15 of ED 540 make it unclear whether the auditor is still required to choose one of the three basic approaches (outlined above) and perform the additional testing required by paragraph 17-20 in the context of that overall approach. This is important because extant ISA 540 requires the auditor to choose from these same three basic methods without acknowledgement that the best approach to responding to the risk of material misstatement posed by an estimate may be a combination of all three methods, each aimed at the drivers of risk. That is, once the auditor identifies the key sources of complexity, judgment and estimation uncertainty, the auditor should be free to design the most appropriate responses to those risks. We recommend drafting language to clarify that on developing further audit procedures for estimates of not low risk the auditor:

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4 ISA 315 (Revised), paragraph 27 requires that the determination of a significant risk be made without consideration of "the effects of identified controls related to the risk."

1. Responds to that risk at the account / assertion level by using one of the three basic approaches.

2. Selects the appropriate procedures, based on the identified driver(s) of the assessed risk of the estimate that achieve the objectives in paragraphs 17-19.

- Further, where the estimate is determined to be of not low inherent risk, we recommend clarification of whether the intention was to require the auditor to verify management's process for each of these estimates.

- Paragraphs 17-19 of ED 540, despite being presented in terms of required outcomes, will more likely be interpreted as a checklist of individual audit procedures that are required to be performed in order to obtain sufficient appropriate audit evidence over an estimate. This may limit the ability of the auditor to exercise professional judgment in designing audit procedures that are appropriate to respond to the risk presented by the specific facts and circumstances of the estimate. Whilst we support revisions that promote the application of professional skepticism, it would be preferable if this enhancement could be achieved without detriment to the auditor's ability to exercise professional judgment.

- We would also recommend that further guidance is developed with respect to the application of paragraphs 17-19 of ED 540 in the context of the basic approaches. For example, it is not clear how these procedures would be applied in situations where the auditor is developing an independent estimate.

- In circumstances where sufficient appropriate audit evidence for the accounting estimate is obtained through the performance of subsequent events, or through the development of an auditor's point estimate, the requirements in paragraphs 17-19 may potentially be implicitly addressed. It is unclear whether paragraph 15(b) is addressing this situation by stating that "audit evidence about the matters in paragraphs 17-20 should be obtained *when applicable*." We would therefore recommend that this be clarified either in the requirement or with further application material.

Q4. When inherent risk is not low (see paragraphs 13, 15 and 17-20)
(a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with relevant requirements in ISA 315 (Revised) and ISA 330)?

We are of the view that the proposed changes in ED 540 represent an improvement on extant ISA 540. However, appreciating the need for ISA 540 to be revised in a limited time frame, we question whether proposals that may result from the current ISA 315

(Revised) project will result in the need for further changes to ED 540 or if such proposals may result in a disconnect between the two standards. It is important that the IAASB ensure that there is an appropriate level of communication and coordination between these two projects as ED 540 moves towards finalization.

We are also of the view that more guidance is required in ED 540 to assist the auditor in complying with the requirement in paragraphs 27 and 28 of ISA 315 (Revised) when determining whether the estimate is considered a significant risk. ED 540, in paragraph A76, refers the auditor to ISA 315 (Revised) but does not include consideration of the factors identified in ISA 315 (Revised) in the context of the three factors in ED 540.

Further, when considering the nature of accounting estimates, paragraph 3 of ED 540 notes that the susceptibility of an estimate to misstatement may increase due to estimation uncertainty. ED 540 implies that the auditor should determine that management has taken steps to address estimation uncertainty. Application material in paragraphs A113 to A115 provide further guidance on management's steps to understand and address estimation uncertainty. However, this guidance does not clarify what is intended by the term "address." For example, is it sufficient for management to measure and disclose estimation uncertainty? Do management have the responsibility to minimize estimation uncertainty? We interpret this to mean, where possible, estimation uncertainty is reduced to a level below performance materiality. If estimation uncertainty cannot be reduced to a level below performance materiality, then we would interpret this to mean that estimation uncertainty should be minimized. Further, we are of the view that estimation uncertainty should be evaluated and disclosed as necessary. We would therefore recommend that additional application material is considered for ED 540 to clarify what is expected.

We understand that a potential disconnect between inherent risk and the risk of material misstatement in ED 540 has been identified through field-testing which produced the following results. An inventory provision is based on model that uses the movements in inventory to calculate the provision and the model has been assessed as complex. Under ISA 315 (Revised), the likelihood of misstatement of the provision is low and the provision has historically been below performance materiality. Under ED 540, because the model has complexity to it, the auditor might be more inclined to assess the risk of misstatement as other than low and would need to comply with paragraph 15(b) and perform incremental audit work, which may not be effective or representative of the risk.

We would therefore recommend the consideration of additional explanatory material in proposed paragraphs A72 to A74 to assist the auditor in assessing the risk of material misstatement related to an accounting estimate, specifically:

- Whether one of the factors of complexity, judgment or estimation uncertainty should be considered more prominent than the others. For example, ISA 315 (Revised) recognizes complexity and estimation uncertainty as significant risk indicators but does not recognize judgment. Should it be inferred that this factor is of less importance than the others? This may also be an issue for consideration in the IAASB's ISA 315 (Revised) project.

- Whether it is possible to identify certain factors that give rise to the risk, but still conclude that the inherent risk is low. If that is possible, is there a threshold from which it is determined that it would no longer be reasonable to conclude inherent risk is low? For example, if an estimate has an assessed inherent risk of low for complexity and estimation uncertainty and not low for judgment; could we conclude that overall inherent risk is low and thus the requirements of ED 540 paragraph 15(a)(i) – 15(a)(iii) can be applied? On the other hand, does the fact that judgment has been assessed as not low, irrespective of the overall assessment of inherent risk, mean that the requirements in ED 540 paragraph 18 must apply? Alternatively, if we have an estimate with an assessed low level of complexity, judgment and estimation uncertainty, could we conclude that the inherent risk is low or does the accumulation of the three criteria result in the determination that inherent risk is not low?

We understand that the results of field-testing have indicated that auditors have interpreted ED 540 to require the identified inherent risk of the estimate to be categorized as one of the three factors and as a result, it was difficult to apply the risk assessment and to structure a response to the risk.

(b) Do you support the requirement in ED-540 for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?

(c) Is there sufficient guidance in relation to the proposed objective-based requirements in paragraphs 17-19 of ED-540? If not, what additional guidance should be included?

We have concerns around the drafting of the proposed requirements and how they may be practically applied. For example, ED 540 implies that the assessed risk of an estimate will always be as a result of one of the three factors. This may result in implementation issues in circumstances when it is not possible to identify only one of these factors as being the main driver of risk or, alternatively, where a factor other than the three identified is the main driver of risk.

We are of the view that it should be made clear in the application material of ED 540 that a combination of factors could be identified as the reason for the assessed risk of the estimate. Further, to assist auditors in determining which factor or factors drive the risk, examples where multiple factors drive the risk would be helpful in understanding the distinction between the three factors. We would suggest that these other examples include:

- Estimating depreciation for an entity with a large fixed asset base – for example, an entity specializing in energy distribution, which requires complex monitoring systems and processes but less judgment and typically involves a low degree of estimation uncertainty

- The estimate of future income tax assets that can be recognized – this requires considerable judgment in the assessment of future taxable profits and may present significant estimation uncertainty if projections are a long way in the future but generally require less complex systems and processes for its establishment.

Further, distinguishing between estimation uncertainty and judgment may be difficult in practice and based on the definitions included in ED 540, these two factors would appear to be very closely related. For example, where the inherent risk of an estimate is determined to be not low due to estimation uncertainty this will inherently require management to use judgment to value the estimate and conversely, where the inherent risk of the estimate is determined to be not low due to the use of judgment, estimation uncertainty must be present. We are of the view that further clarification of these factors is required in proposed ISA 540 (Revised) or that consideration should be given to combining these factors into a single concept.

In respect of the potential for other factors to be driving the risk of the estimate, the Explanatory Memorandum accompanying ED 540 clarifies that these three factors are not an exclusive list and there could be other factors driving the risk. We believe it would be helpful, if similar to the Explanatory Memorandum, this could be more plainly stated within the ED 540 itself.

Further, if an estimate was determined to be not low inherent risk at the beginning of the audit and therefore paragraphs 17-19 of ED 540 apply, but, before the issuance of the financial statements, the reason for the assessment of not low is resolved (and verified through audit procedures on subsequent events), we would assume that the inherent risk would become low (as the risk driving the not low assessment has now been eliminated) and, depending on the requirements of the financial reporting framework, the amount may no longer be considered an estimate. As such it is not clear whether the requirements in paragraph 17-19 of ED 540 would still apply. We are of the view that this should be clarified in ED 540 or should be proposed as a conforming amendment to ISA 330.

Where estimation uncertainty is determined to be the primary inherent risk of the estimate, ED 540 paragraph 19(b) requires that if the auditor concludes that estimation uncertainty has not been appropriately addressed, then the auditor must develop an independent estimate, *to the extent possible*, to evaluate management's point estimate. We are concerned that not only will this blur the responsibilities of management and of the auditor for the development of the estimate, without further guidance regarding the circumstances in which it would or would not be possible to develop an independent estimate, this requirement could be inappropriate and a fatal flaw in the standard. (Also, see our comment in Q4a above in respect of use of the term "address.")

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?

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.[5] 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,[6] 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.

Q6. Will the requirement in paragraph 23 and related application material (see paragraphs A2-A3 and A142-A146) result in more consistent determination of a misstatement, including whether the auditor uses an auditor's range to evaluate management's point estimate?

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5 International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

6 ISA 520, *Analytical Procedures*

We welcome the introduction of paragraph 23 of ED 540, requiring the auditor to evaluate whether the accounting estimate and the related disclosures are reasonable in the context of the financial reporting framework. We believe that this will promote professional skepticism in the audit of estimates. However, we are unclear whether this requirement would require the assessment to be performed on an estimate-by-estimate basis or as an overall test over the body of estimates; although the use of the plural would imply that it is the latter.

If the intention is to evaluate the body of estimates on an overall basis, we are of the view that application material should be developed to indicate that there may be circumstances when in addition to performing the overall evaluation, an estimate may be sufficiently complex that it would be appropriate for the auditor to perform an individual stand back analysis on that estimate.

CONFORMING AND CONSEQUENTIAL AMENDMENTS

Q7. With respect to the proposed conforming amendments to ISA 500 regarding external information sources, will the revision to the requirement in paragraph 7 and the related new additional application material result in more appropriate and consistent evaluation of the relevance and reliability of information from external information sources?

We are of the view that further consideration of how management determined the relevance and reliability of information is warranted. Currently the standard is focused from an audit perspective, however financial reporting standards are enforceable by law and hence these factors may be more suited to a financial reporting framework rather than through the auditing standard.

The proposed definition of external information sources includes the term "publically available information." This term has not been defined in the proposals and whilst we appreciate that this may be challenging to define, we are of the view that this is an area on which the IAASB should consider issuing guidance.

Further, the proposed application material paragraph A1C of ISA 500[7] identifies a situation where management's expert may also publish information on a website that is available for general use, i.e. it is not made available as a consequence of the role as an expert. It is not clear how this information could be used to assess the reasonableness of an external information source when it is essentially information that originates from the same source.

We also believe that it is important that the IAASB address the topic of audit evidence and should consider if it is possible to accelerate its work in this area.

7 ISA 500, *Audit Evidence*

REQUESTS FOR GENERAL COMMENTS

Q8. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below

1. 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

We believe that potential translation issues could be encountered unless the meaning and differentiation of the use of "estimate" and "estimates" is made clear, as this is a subtle nuance that can be easily lost.

2. Effective date - Recognizing that ED-540 in 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.

We agree that an effective date for ED 540 of 18 months from final approval of the standard would be appropriate. We also support permitting early implementation where possible, acknowledging that that translation of the proposed standard may affect the ability to early adopt in some jurisdictions.

Detailed Drafting comments

Detailed below are our suggested drafting comments:

A35.Data and assumptions used in making an accounting estimate are referred to as significant data or significant assumptions…For example, an accounting estimate may be applied by applying a method that uses several data sets and several assumptions…

A89.A seemingly immaterial accounting estimate may have the potential to result in a material misstatement due to the estimation uncertainty associated with the accounting estimate; that is, the size of the amount recognized or disclosed in the financial statements for an accounting estimate is generally not, in itself, an indicator of its estimation uncertainty.

We note that the follow paragraph in the application material is inconsistent with the requirements in ED 540 to determine whether the estimate is of low or not low inherent risk.

A95. Paragraph 40 of ISA 200[8] states that the ISAs do not ordinarily refer to inherent risk and control risk separately. However, the auditor may make separate or combined assessments of inherent and control risk. Although this ISA neither implies nor requires a separate assessment of inherent and control risk, it highlights the importance of the auditor's consideration of both inherent and control risk in designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, at the assertion level in accordance with ISA 330.

[8] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*