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Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
United States of America

**Exposure Draft: *Proposed International Standard on Auditing 540 (Revised) Auditing Accounting Estimates and Related Disclosures***

Dear Mr. Waldron,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft (ED) in respect of *ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures (ED-540)*. We are supportive of the IAASB's overall approach of proposing revisions to *ISA 540 Auditing Accounting Estimates and Related Disclosures* in order to modernise the International Standard on Auditing (ISA) for evolving business environments and foster an appropriately independent and skeptical mindset of the practitioner.

We have two primary concerns with the changes proposed in ED-540 relating to the work effort required for estimates assessed as having low inherent risk and the 'three factor' approach. We believe that ED-540 creates the impression that the work effort on low inherent risk estimates will significantly increase even though the conclusion may be the same as what would have been determined in the extant standard. Further, the interrelationship of the three factors (complexity, judgment and estimation uncertainty) is likely to result in at least two or all three of these factors being identified for each estimate which may also cause increased work effort unnecessarily.

The details of our suggestions related to the above concerns, as well as our views on the other aspects of the ED, are provided below in response to the specific questions posed.

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## Specific Matters

### Overall Questions

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

We acknowledge that revisions are required to address the complexity of evolving financial reporting frameworks, specifically as they relate to accounting estimates, such as International Financial Reporting Standards (IFRS). We believe that the revised ISA 540 will lead to a more consistent approach in auditing accounting estimates.

Although we understand that this is an ISA that applies to all accounting estimates, we support the development of additional guidance, or implementation support materials, to address concepts such as the auditing of expected credit losses (ECL) under IFRS 9 *Financial Instruments*. We suggest the separate guidance would include:

- Guidance on assessing the risk of material misstatement and the auditor's response if management's procedures and internal control give rise to increased risk of material misstatement in addition to complexity, estimation uncertainty and judgment
- Guidance on auditing management's estimate of ECL, particularly where management's estimation model is not sufficiently rigorous
- Expanding the material relating to the 'standing back' and management bias assessments in the context of ECL under IFRS 9
- Evaluating judgments and ensuring disclosures on ECL are useful, and
- Increasing application and other explanatory material on auditing disclosures.

We also propose that ED-540 be more forward-looking in addressing estimates and judgments made in other areas of the financial statements, such as the impending IFRS 15 *Revenue from Contracts with Customers*. We also note that ED-540 seems to take a prescriptive approach in some areas (e.g. paragraph 10 listing the Risk Assessment Procedures) and a principles-based approach in other areas (e.g. paragraph 15 on Responding to the Assessed Risks of Material Mistatement). We suggest having a more consistent approach.

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

We support the increased emphasis on professional skepticism in ED-540. The placement of the requirement to apply professional skepticism in paragraph 5 sets the appropriate tone on its significance. This is especially important as one of the factors to be considered in assessing the risk of an accounting estimate is judgment which may result in management bias. The stand back provision operates as an effective mechanism to overtly emphasise the application of professional scepticism. That said, we believe that additional application guidance is necessary to provide auditors with practices they may consider employing in performing the stand back review in order to best demonstrate professional skepticism. If there are best practices which were contemplated in the drafting of this provision, (i.e. involvement of others not previously associated with the work, a

cooling off period before the review is undertaken, increased involvement of the engagement quality control reviewer, etc.), practitioners would benefit from having this guidance. In the absence of more specificity around what is meant to be involved in this procedure, it will likely result in all too many instances where this procedure will become a “self review” by auditors of their own work. The preparers may already be anchored into their conclusions on the sufficiency of their procedures and the adequacy of the evidence obtained, thereby diluting the efficacy of the stand back review.

Further, we believe that where there are other ISAs in which complexity, judgment and uncertainty come into play (e.g. ISA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* and ISA 550 *Related Parties*), that consideration be given to adding similar requirements regarding professional skepticism and the stand back provision.

To provide further clarity, we suggest adding guidance on the documentation that would be sufficient to show that the auditor appropriately challenged management assumptions and the extent to which alternatives were considered. In our response to the IAASB’s *Enhancing Audit Quality in the Public Interest* consultation paper, we noted that: *‘It is important that the IAASB does not focus only on drivers and impediments to professional skepticism, but also provides examples of how outcomes indicate professional skepticism has been appropriately exercised. One way of doing this could be through the provision of a professional judgment framework that could provide analyses of particular scenarios and demonstrate how a conclusion was reached in practice.’*

We also note some concerns around the use of the term ‘low inherent risk’ and the procedures that are required as a result of this assessment may give the appearance of a reduced level of professional skepticism.

### **Focus on Risk Assessment and Responses**

#### **3. Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

We believe that the ED-540 is a good start in addressing scalability in auditing accounting estimates. However, we have some concerns related to the requirement to assess inherent risk as low or not low. This is not currently a requirement under ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* which involves an overall assessment of the risk of material misstatement, including both inherent risk and control risk. Further, the change in assessed risk levels of low inherent risk and not low inherent risk versus risk of material misstatement and significant risk of material misstatement (SRMM) results in a potential change in the methodologies of many auditors and audit firms that may not be the intention of ED-540. The implication of including the concept of ‘low risk’ within ED-540 is that the IAASB is potentially introducing a new concept that could have far wider implications for how auditors, irrespective of size of audit practice, may approach an audit.

We understand that ISA 315 (Revised) is currently being reviewed and revised and may clarify the meaning and use of the different risk levels - potentially through the concept of a ‘spectrum of risk’. Additional guidance regarding the requirements for auditing accounting estimates assessed to have SRMM would be particularly helpful. We also note that the requirements section of ED-540 focuses on the assessment of accounting estimates as having low inherent risk or not low inherent risk. However, the application and other explanatory material section, starting from paragraph A76

onwards, refers to SRMMs. We suggest that ED-540 be more consistent in the use of these terms and concepts.

Further, the increased risk assessment procedures outlined in paragraphs 10(a) to 10(f), including the evaluation of internal controls related to accounting estimates, may lead to some confusion in the level of work effort required and may result in auditors performing too much work on non-complex, straight forward estimates. We believe that ED-540 will result in an overall increased work effort in comparison to the requirements in the extant ISA. Based on the examples included in the application paragraphs, it is not clear which types of estimates fall into the low inherent risk category. This lack of clarity has the potential to undermine the scalability of ED-540. Example approaches for a simpler low-risk estimate compared to a more complex high risk estimate would be helpful in applying the requirements in paragraphs 10(a) to 10(f).

We also note that paragraph 11 includes two requirements ('[reviewing] the outcome of accounting estimates in previous period financial statements' and '[taking] into account the characteristics of the accounting estimates in determining the nature and extent of the review')<sup>2</sup>. We suggest that the two requirements be in separate paragraphs to ensure that there are no hidden requirements and there is greater clarity for auditors.

**4. 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 the relevant requirements in ISA 315 (Revised) and ISA 330?**

Generally, we believe that the proposed amendments to ED-540 would result in a more effective identification and assessment of, and responses to, risks of material misstatements relating to accounting estimates. The more granular requirements included in ED-540 is helpful in identifying where the risk arises from in the accounting estimate. This promotes a more effective response in determining where to focus the audit procedures.

When assessing risk, paragraphs 28(c) and 28(e) of ISA 315 (Revised) imply that complexity and subjectivity, or judgment, are indicative of significant risk of material misstatement. In addition, the application and other explanatory material related to low inherent risk estimates may suggest, unintentionally, that few estimates would be considered low inherent risk. As we noted in answer to question 3 above, there is also the potential for confusion due to the introduction of the concept of low risk within one particular ISA. Therefore, we suggest including more guidance, including examples, relating to accounting estimates with low inherent risk as mentioned previously.

We also request some clarification regarding the requirements in paragraph 15 of ED-540 relating to accounting estimates assessed as having inherent risk that is not low. It is not clear whether the procedures listed in both 15(a) and 15(b) are required when the inherent risk of the accounting estimate is not low. In these instances, additional clarification on whether practitioners have the option to choose other procedures they believe appropriate

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<sup>2</sup> ED-540, paragraph 11.

to address the risks identified would be helpful. Further, the last paragraph in 15 seems somewhat out of place. We recommend having this paragraph as 15(c). The fact that several requirements in the ED-540 include sign-posting references to other requirement numbers is indicative that as currently drafted, there is a potential for confusion for readers of this particular ISA.

- b. Do you support the requirement in ED-540 (Revised) 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?**

We agree with the three factors identified in the ED-540 as having the most significance relating to the audit of accounting estimates. However, we find it difficult to distinguish these factors when dealing with accounting estimates. We believe that at least two and sometimes all three of the factors will be relevant for all accounting estimates. An accounting estimate that is considered complex and includes judgment will likely include estimation uncertainty. Further, it is difficult to determine whether the separation of the three factors would lead to a reduced work effort or a refined and focused response. We suggest adding more examples to those listed in paragraph A74 of accounting estimates where only one of the factors are present and describing how the factors are interrelated.

ED-540 encourages and directs the practitioner to consider the cause of the risk underlying the estimate, being complexity, judgment and estimation uncertainty. This is different from the extant ISA whereby the underlying components of the estimate, being the model and assumptions, were assessed instead of that assessment taking place at the estimate level. ED-540 also varies from the approach taken in the proposed Public Company Accounting Oversight Board (PCAOB) standard on auditing accounting estimates and is not congruent with the way management approaches uncertainty in their estimates, making it hard to correlate discussions and analysis with management. We recommend including guidance on performing these assessments at the estimate level as required under ED-540.

We note that there is increased pressure from regulators on challenging management's judgments and we suggest including practical guidance on how this can be performed when auditing accounting estimates. On the factor of judgment, additional clarification on whether there is a requirement to assess the extent of judgment exercised by any experts used in the process of formulating or reviewing accounting estimates (whether provided by management's experts or auditor's experts) would also be helpful.

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

Subject to our earlier comments in 4 (b) above about the interdependence of the three factors, we agree with the approach taken by the IAASB to list the objectives under each of the three relevant factors. This allows the practitioner to tailor their audit response based on which factors are considered relevant when auditing each individual accounting estimate.

The requirement for the auditor to develop a point estimate or a range when they have determined that management has not appropriately understood and addressed estimation

uncertainty described in paragraph 19(b) seems to suggest that there could be a control deficiency. If this is the case, we suggest that ED-540 identify that a control deficiency may exist in these circumstances. Guidance on considerations the auditor may have in evaluating and responding to potential control deficiencies related to the company's estimation process would also be helpful.

There are various objectives listed in paragraphs 17 to 19 relating to complexity, judgment and estimation uncertainty. We suggest clarifying whether some or all of the objectives are to be addressed in responding to the risks related to these factors. Guidance regarding the level and amount of procedures to address some or all of the objectives listed would assist in determining the sufficiency of work effort. We also suggest including guidance, with examples, of the level of work effort that would be required when a SRMM is identified.

- 5. 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 agree with proposals regarding how the auditor's range should be established. The existing requirement to narrow the auditor's range to performance materiality would not be appropriate for some estimates, such as pension liabilities and ECL for financial institutions. The variability in these types of estimates are likely to exceed performance materiality. We also support the need for additional disclosure when there is significant estimation uncertainty.

We propose adding guidance relating to developing an auditor's range that include only amounts that 'are supported by the audit evidence'<sup>3</sup>. This wording is somewhat ambiguous and application and other explanatory material would be helpful in developing the appropriate amounts to be included in the range. Also, for this section to be properly applied, we propose the guidance clarify that audit evidence may include forward-looking information used in making an estimate. In addition, we suggest including some clarification regarding how developing a point estimate or range would be considered a substantive analytical procedure<sup>4</sup>.

Paragraph A131 lists various methods that can be used to develop an auditor's point estimate or a range. The second and fourth examples in the list appear very similar as both involve the development of alternative assumptions. We suggest clarifying the difference between these two examples or combining these if the differences are minor.

Where there is sufficient audit evidence to support a point estimate, it would be helpful if ED-540 acknowledged that it would be preferred/recommended for auditors to consider the point estimate prior to considering a range. We suggest reordering the application paragraphs to facilitate this to address point estimates first and then guidance on a range. It is important that where there is evidence to support a point estimate, that this is pursued and that management's point estimate is not assessed against an auditor's range only.

We also propose providing additional guidance on auditing management's assumptions, including some practical examples.

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<sup>3</sup> ED-540, paragraph 20(a).

<sup>4</sup> ED-540, paragraph 128.

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

We support the proposed changes in determining whether a misstatement exists and the amount of the misstatement. This approach will lead to more consistency in determining the misstatement relating to an accounting estimate. We propose including additional guidance when using an auditor’s range to evaluate management’s point estimate. This will also be helpful in assessing management bias as we would expect management’s point estimate to be closer to the middle of the range rather than the outer edges of the range. We also suggest adding a more explicit example to convey what is required and what constitutes a misstatement where the auditors’ range is wider than materiality. Further, we also recommend changes to the wording in the application material, specifically paragraphs A144 and A145, to clarify the requirements when differences exist between management’s point estimate or range and the auditor’s point estimate or range.

We note that from a reader’s perspective there is some inconsistency in the application and other explanatory material where there is a separate section on misstatements compared to the requirements where paragraph 23 is included in the Overall Evaluation Based on Audit Procedures Performed section.

#### **Conforming and Consequential Amendments**

7. **With respect to the proposed conforming and consequential 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 consequent evaluations of the relevance and reliability of information from external information sources?**

We agree with including the proposed conforming and consequential amendments to ISA 500 regarding external information sources. These additional requirements will be useful in assessing the relevance and reliability of external information sources. We also recommend adding guidance for situations where no external information sources are available, such as when valuing certain financial instruments and assessing ECLs.

#### **Request for General Comments**

8. **In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**
  - a. **Translations – Recognising 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 ED-540.**

We have long supported IFAC efforts to make ISAs and other IFAC pronouncements accessible to users through effective and timely translation. There is some wording used in ED-540 that may need additional clarification particularly after translation has been performed.

Paragraph A35 defines significant data as data for which a ‘reasonable variation in the data or assumption would materially affect the measurement of the accounting estimate’<sup>5</sup>. This term is used throughout ED-540 and due to its importance, we recommend expanding the definition and providing more examples to aid understanding and translation. The IAASB may also want to consider if, in the context of this particular new definition, whether there is:

- A potential need to revise extant use of the term ‘data’ in other ISAs
- The definition as written, creates a consistency issue in respect of extant ISAs where the term ‘data’ is currently used
- A better construction of the definition to help avoid user confusion about whether ‘significant’ implies qualitative and/or quantitative considerations, and
- A risk of potential overlap with use of the term ‘data’ and ‘significant data’ as it relates to the work of the IAASB’s data analytics working group.

Further, the proposed change to assess whether disclosures are reasonable versus adequate in the extant ISA may not be clear. We suggest including more guidance around this change and the acceptable threshold levels related to reasonable instead of adequate. We also note that there is a potential inconsistency with the recently issued ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*, which requires an assessment of whether the disclosures are adequate.

The application and other explanatory material uses the term ‘level 3 fair values’ when providing certain examples, such as paragraph A43 when discussing the involvement of experts. As this term is specific to IFRS, not all users may be familiar with its meaning in the context of accounting estimates. We recommend including a reference to the applicable accounting standard and an explanation of this term with context relating to accounting estimates.

- b. Effective Date – Recognising that ED-540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

We believe that the proposed effective date of ED-540 would provide sufficient time to implement the new standard.

## Field Testing Results

Please find below results from field testing the proposed requirements under ED-540 based on the questions posed in *Proposed ISA 540 (Revised): Field Testing Information Package*. Accounting estimates tested include impairment of long-lived assets (goodwill, property, plant and equipment), asset retirement obligation, credit loss related to accounts receivable and bond valuation.

- 1. Did the new risk assessment requirement (paragraph 10), provide you with sufficient guidance to identify and assess the risks of material misstatement?**

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<sup>5</sup> ED-540, paragraph A35.



We consider that paragraphs 10 and A11 - A70 of ED-540 provide sufficient guidance on the risk assessment procedures and related activities around understanding the entity and its environment with respect to auditing the accounting estimate.

- 2. With respect to the revised requirement to identify and assess the risks of material misstatement (paragraph 13), how capable were you of thinking about the accounting estimate in terms of the risk of factors, complexity, the need for use of judgment and estimation uncertainty?**

The requirements under ED-540 provide the auditor with a greater understanding of the risk by considering the three factors inherently present in the estimate. When assessing the risk factors, we noted that at least two of the factors (judgment and estimation uncertainty) have a strong correlation due to management having to make key assumptions. For example, when testing impairment, management was required to make several key judgments about revenue and margin growth rates. These judgments resulted in inherent uncertainty as changes in the judgment would change the estimate. As stated previously, additional guidance with examples on differentiating the three factors would be helpful in assessing the risk related to the accounting estimate and designing appropriate procedures to respond to these risks.

- 3. In addition to risk factors of complexity, the need for the use of judgment and estimation uncertainty, did you identify any other relevant risk factor(s) in the identification and assessment of the risk of material misstatement (paragraph 13)?**

We did not identify any additional factors.

- 4. When inherent risk was considered to be 'not low', was it sufficiently clear to you what procedures you would need to perform to obtain evidence about the matters in paragraphs 17-20, as applicable?**

When inherent risk is 'not low', ED-540 needs to provide clarification as to whether all objectives listed under each of the three factors are to be met or whether the auditor is able to use judgment to select which objectives are the most relevant/appropriate.

- 5. What challenges did you encounter in dealing with estimates which had more than one risk factor (complexity, judgment, estimation uncertainty)?**

As noted above in question 2 of the field testing, we found it difficult to differentiate the three factors in assessing and responding to the risk as we believe the factors are all interrelated. For all the accounting estimates in the field testing, we noted that at least two of the factors were present. This led to some difficulties in assessing risk when one of the factors was considered low inherent risk and another factor was assessed as not low.

With respect to estimation certainty, one of the challenges we encountered was whether the level of estimation uncertainty should be influenced by whether the accounting estimate is eventually recognised in the financial statements. For example, when assessing goodwill impairment, since the estimate (which is the value-in-use or VIU of the cash generating unit or CGU) is determined for the purpose of goodwill impairment and given that the VIU is higher than the carrying amount of the goodwill, the estimate has not been recognised in the financial statements as no impairment of goodwill has been recorded. Our preliminary assessment is that although the estimate is not

recognised in the financial statements, there will still be a high level of estimation uncertainty if changes to the key assumptions would result in significant changes to the estimate. We suggest the IAASB provide further clarification and guidance in this area.

Considering the results of the field testing and that these three risk factors are likely to interact and influence one another in practice, we are of the view that it may not be necessary to perform a risk assessment of these risk factors independently, and then requiring distinct audit responses to be carried out. We also noted that some of the requirements in ED-540 paragraphs 17-20 overlap in certain respects, for example paragraphs 17(a) and 18(a)(i), and paragraphs 17(a) and 18(c). We are concerned that the risk assessment process may become unduly complex while not substantially changing the underlying audit procedures performed to address the risk.

- 6. Recognising that risks exist along a spectrum, were you able to tailor the procedures you would perform to the level of assessed risk? If you identified a significant risk, based on the work effort you think would be needed to comply with paragraphs 15-20, would you expect to do anything different/additional as a consequence of the risk being determined as significant?**

We found that providing a list of objectives for each factor was more helpful than a list of procedures in tailoring the response. However, we feel that providing additional guidance on the level of work effort in ED-540 would be helpful as currently it is not clear as to whether the level of work effort would be different for accounting estimates assessed as ‘not low’ inherent risk versus those assessed as significant risk.

- 7. Regarding misstatements, did you find the application material in paragraphs A142-A146, together with ISA 450, clear in determining what constitutes a misstatement?**

We found the application material, together with ISA 450, clear in determining what constitutes a misstatement.

## Other Comments

We propose the following amendments to ED-540 for consideration:

- The use of ‘they’ in paragraph 2 could refer to either management or the estimate. We recommend amending the use of ‘they’ to either management or the estimate as appropriate.
- Paragraph 2 refers to the three factors of complexity, judgment and estimation uncertainty which are not specifically defined as such until paragraph 3. We recommend improving the linkage of the three factors mentioned in paragraph 2 with paragraph 3 to provide clarity for the reader.
- Paragraph 6 includes an implicit requirement to evaluate the reasonableness of accounting estimates and related disclosures in accordance with the applicable financial reporting framework. We recommend that this requirement be made explicit.
- Paragraph A2 in the application and other explanatory material section lists three requirements and two other considerations relating to making the assessment of reasonableness with respect to the accounting estimate. We propose that these other considerations be aligned to the wording used in ISA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, specifically paragraph 240.32(b)(i) relating to ‘free from bias’, such as: ‘The data and assumptions used in making the accounting estimates are *free from bias* and are consistent with each other and with those used in other accounting estimates or areas of the entity’s

business activities.’ The second item in other considerations should also be consistent with paragraph 240.A39 relating to ‘understanding the entity’, such as: ‘The accounting estimate takes into account appropriate information, *including understanding the entity*, as required by the applicable financial reporting framework.’

- Paragraph A10 uses the terms ‘smaller entities’ and ‘small entities’. We recommend the use of only one of these terms to ensure greater consistency of interpretation.
- For paragraphs A12 and A13, we recommend adding ‘applicable’ prior to ‘financial reporting frameworks’.
- It would be helpful for the ED-540 basis of conclusions to highlight the difference between assessing disclosures for adequacy (see existing ISA 540 objective paragraph) versus reasonableness in order to clarify that there has been a change in emphasis and work effort.
- Where it is clearly apparent that an accounting estimate is low risk, that ED-540 considers a means of making this conclusion without performing all the steps listed in paragraphs 10(a) to 10(f).
- Paragraphs 25, A153 and A154 list additional representations to be obtained from management relating to accounting estimates which seem to transfer some of the auditor’s responsibilities to management. We recommend that the representations relate more to management’s responsibilities under the applicable financial reporting framework concerning the accounting estimates in the financial statements.
- ED-540 paragraph 19(a)(i) requires the auditor to ‘obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand and address the estimation uncertainty, and develop a point estimate that meets the measurement objective’<sup>6</sup>. We are of the view that it may be more appropriate to use the term ‘consider’ or ‘evaluate’ rather than ‘to obtain sufficient appropriate audit evidence’, as it is difficult to envisage how, in practice, the auditor can obtain sufficient appropriate audit evidence that management has understood the estimation uncertainty.
- ED-540 paragraph 15(a)(i) states ‘[o]btaining audit evidence about events occurring up to the date of the auditor’s report’<sup>7</sup>. This appears to be a broad procedure on subsequent events. We propose to retain the wording in extant ISA 540 paragraph 13(a) which is better phrased in the context of accounting estimates, that is ‘Determine whether events occurring up to the date of the auditor’s report provide audit evidence regarding the accounting estimate.’<sup>8</sup>

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We appreciate the opportunity to comment on the IAASB’s ED-540 and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
Global Head of Audit and Accounting

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<sup>6</sup> ED-540, paragraph 19(a) (i).

<sup>7</sup> ED-540, paragraph 15(a) (i)

<sup>8</sup> ISA 540, paragraph 13(a)