



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

This ED has been appropriately updated with the inclusion of guidance on IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*, IAS 41 *Agricultural Assets* in addition to the additional guidance on IFRS 13 *Fair Value Measurement*. Hence, this ED addresses how to audit estimates such as Expected Loss Model, circumstances where trading ceases, valuation of financial instruments specially those that don't have an active market, insurance liabilities, claims and insurance reserves, fair value measurement of assets using level 1, 2 and 3 inputs etc.

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

The application material of ED 540 appropriately reinforce the application of professional skepticism when auditing accounting estimates. But IAASB still needs to develop more guidance materials, examples and back up material in a way that the auditors' knowledge can be enhanced, for them to develop that high level of skepticism. In principal, we need to increase or enhance the professional skepticism in auditing estimates because of the complexity of the data and the models being used. Therefore the application of skepticism needs adequate guidance on what areas that auditor is specifically exposed to when auditing the accounting estimates. Further, when the management has used data and assumptions performing a sensitivity analysis to the effect of such selection by the management is required. More guidance is needed on the range of possible outcomes that is to be used in such sensitive analysis.

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

ED-540 is sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk. However, when it comes to estimation of value for assets where there are no comparable value, more guidance is needed in order for the auditor to perform further audit procedures in obtaining sufficient appropriate audit evidence on the reasonability of such estimation. This may be particularly important for some assets that the public sector entities do have. Smaller companies may not have adequate knowledge required or the expertise knowledge in arriving at estimates which in turn may increase the risk to the Auditor. So a simplified approach for the smaller entities will be more appropriate.

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?

Yes. This gives more clarity with the standard.

- 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?

Yes

- 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?

Yes

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?

Yes

We believe that the paragraph 20 appropriately establish the auditors range development and the auditors point estimate or range development approach is better than the approach in narrowing range in extant ISA 540.

6. 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 when the auditor uses an auditor’s range to evaluate management’s point estimate?

Paragraph 23 can be identified as the core of the standard which says the auditor to assess whether there is a misstatement or not. However paragraphs A2– A3 and A142– A146 doesn’t provide adequate guidance in relation to the audit procedures and the audit evidence or the types of misstatement in the disclosures that should arise from the accounting estimates.

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 consistent evaluations of the relevance and reliability of information from external information sources?

Yes. Proposed conforming amendments to ISA 500 regarding external sources has been dealt genetically with the audit evidence. However the management use external information in making estimates so the necessary specific amendments regarding the use of external information should be include in ISA 540 as well.

8. (a) Translations— Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED- 540.

We do not provide comments.

- (b) Effective Date—Recognizing that ED- 540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and

encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

In the local context it will require more time for the industry as well as the professionals to get ready for this change. Hence it will be appropriate, if the effective date will be 24 months after approval of the final ISA. Since there should be enough time given for capacity building.

### **General Comments**

1. In general we believe that ED for ISA 540 gives some more improvement for auditing complex estimates. However we believe supplementary audit guidance should be included to cover the application of estimates in more complex standards such as IFRS 9.
2. Seems that there are few typographical and grammatical errors which needs to be addressed at the standard level.