

Dear Reader,

As supplier of audit programs for a large number of small Audit firms in the Netherlands, we herewith provide our input with regards to the Proposed International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures. Due to our client base, our main area of experience would be around the downward scalability of the standard.

In the situation that our input lead to additional questions, please feel free to contact us.

Kind Regards,

Drs. T.M. Koning RA

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

*The requirements in paragraph 10 have been updated slightly compared to the previous standard, as a results of which coherence with the assessment of risk required in 540.13 and the procedures in paragraph 17-20 could be improved.*

*We would suggest adding requirements for obtaining understanding, of for instance, the risk of manipulation or corruption of data. Either due to manipulating the data itself or errors in the automated processing (gathering, categorisation and summarisation) of data.*

*Furthermore, paragraph 10e-ii requires understanding of the selection of assumptions. But, in order to improve coherence with 13c and 18a, we feel that paragraph 10 should contain the requirement to obtain an understanding of the impact of changes in assumptions to the outcome of the estimate.*

**2) Do the requirements and application material of ED-540 appropriately reinforce the application of professional scepticism when auditing accounting estimates?**

*In order to reinforce professional scepticism and risk assessment procedures in line with the required audit procedures we would suggest adding understanding of:*

- *Risks of manipulating data, assumptions used or calculations performed / models used.*
- *The (mathematical) complexity of calculations or modelling, and nature of IT systems involved.*

**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?**

*Based on our experience there will be implementation issues with the concept of scalability. The standard does not contain a definition of what constitutes 'low' risk. As a result the extensiveness of documentation / substantiation regarding 'low' risk is unclear. Therefore, we suggest abandoning the concept of 'low' risk. We expect that the decomposition of estimates in complexity, judgement and sensitivity will be sufficient to achieve scalability.*

**4) When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

*We have found that phrases like 'when the reasons for the assessment include...' to the requirements lead to a scalable standard, especially when paragraph 10 would be categorised along the same 3 sources of material misstatement.*

- 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?

*As paragraph 10, stipulating the requirements for risk assessment have not changed significantly, we believe that the identification will not change significantly.*

- 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?

*Absolutely. This provides a framework that can assist in a structured evaluation of risks. Our suggestion would be to replace estimation uncertainty with 'sensitivity'. We feel that estimation uncertainty refers to all components of the estimate combined. The definition in 13c could then be "sensitivity, including the extent to which the outcome of the accounting estimate changes due selection of different methods, assumptions or data"*

- 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?

*We have not identified caveats in the guidance provided.*

- 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?

*The reference to ISA 520 could create an unclarity regarding the range that can be allowed. As 520.A16 refers to materiality and 540.A134 refers to the range being multiples of materiality in 'certain circumstances'.*

*We hold the position that when sufficient audit evidence is available to define a range that is lower than performance materiality, the standard is not applicable. We would suggest the following wording for A134.*

*~~In certain circumstances~~ Usually, the auditor's range for an accounting estimate ~~may be multiples of exceeds~~ materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income) and this measure is relatively small in relation to assets or other balance sheet measures. ~~In these circumstances,~~ The auditor's evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly important as the range increases. Considerations such as those included in paragraphs A133, A144 and A145 may also be appropriate in these circumstances.*

- 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?

*In our experience this determination is performed consistently in the field. We do not object to the requirements.*

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

*In our experience this evaluation is performed consistently in the field. We do not object to the amendment.*

### 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—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 have not identified any translation issues.*