



FEEDBACK PAPER

ISA (Ireland) 540 (Revised December 2018) Auditing Accounting Estimates and Related Disclosures

December 2018

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

Contents

1.	Introduction	1
2.	Overview of Revision to ISA (Ireland) 540	1
3.	Conforming Amendments.....	2
4.	Responses Received.....	3
5.	Matters on which IAASA Consulted and Summary Responses.....	4
6.	Conclusion.....	5

1. Introduction

In June 2018, the International Auditing and Assurance Standards Board ('IAASB') approved ISA 540(Revised), *Auditing Accounting Estimates and Related Disclosures* and related conforming amendments to other ISAs. This was subsequently approved by the Public Interest Oversight Board ('PIOB') in September 2018 to confirm that due process had been followed with proper regard to the public interest. The effective date of the revised and amended standards is for the audits of financial statements for accounting periods beginning on or after 15 December 2019.

ISAs (Ireland) are based on ISAs (UK) adopted by the Financial Reporting Council ('FRC'), which, in turn, are based on the corresponding standards issued by the IAASB.

In August 2018, IAASA issued a public [consultation](#) on the proposal to revise ISA (Ireland) 540. In this consultation IAASA did not propose to add any new Irish requirements to the changes made at international level, in line with the FRC who did not propose any new UK requirements.

2. Overview of Revision to ISA (Ireland) 540

The revision of ISA (Ireland) 540 includes the changes listed below.

- Enhanced requirements and application material for risk assessment procedures and the auditor's work effort in responding to the assessed risks of material misstatement. These include, in addition to addressing risks related to estimation uncertainty, specific attention to other risk factors in making accounting estimates such as complexity and subjectivity.
- Enhanced work effort requirements based on one or more of:
 - Considering events occurring up to the date of the auditor's report;
 - Testing how management made the accounting estimate; or
 - Developing an auditor's point estimate or range.

If the auditor develops an auditor's range, the auditor is specifically required to determine that the range includes only amounts that are supported by sufficient appropriate audit evidence.

- Amending the objective and the requirements to the effect that audit procedures address whether both the accounting estimates and the related disclosures are "reasonable" in the context of the applicable financial reporting framework (the current ISA addresses whether disclosures are "adequate").
- Enhancements to reinforce the application of professional scepticism. These include using wording to drive questioning or challenging management where appropriate; more focus on identifying indicators of possible management bias; requiring further audit procedures to be designed and performed in a manner that is not biased toward obtaining audit evidence that may

be corroborative or towards excluding audit evidence that may be contradictory; and an enhanced retrospective review and an overall evaluation based on procedures performed.

- Emphasising the importance of the need to consider internal control, with improved cross references to ISAs (Ireland) 315 and 330 (those standards being more specific to the consideration of internal control).
- A new requirement to remind auditors of their responsibilities to communicate certain matters to those charged with governance and to consider the matters to communicate regarding accounting estimates, taking into account the reasons given to the risks of material misstatement.
- Enhanced documentation requirements.

The revised standard is applicable to all estimates. It has been designed to be scalable, recognising that some estimates may not require significant judgments and the processes for making them may not be complex.

3. Conforming Amendments

The other ISAs (Ireland) which are revised for the conforming amendments are listed below.

ISA (Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing* - including identifying in the application material that ISA (Ireland) 540 (Revised December 2018) requires a separate assessment of inherent risk and control risk.

ISA (Ireland) 230, *Audit Documentation* - including identifying in the application material that documentation providing evidence of the auditor's exercise of professional scepticism may include documenting how the auditor evaluated evidence obtained that both corroborates and contradicts management's assertions. It also identifies that examples of documentation of significant professional judgments include the basis for the auditor's evaluation of whether an accounting estimate and related disclosures are reasonable in the context of the applicable financial reporting framework.

ISA (Ireland) 240 (Updated July 2017), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* - amending the application material to be clear that a retrospective review is not necessarily restricted to the prior period.

ISA (Ireland) 260 (Updated July 2017), *Communication with Those Charged with Governance* – including identifying in the application material that those charged with governance may be interested in the auditor's views on the degree to which complexity, subjectivity or other inherent risk factors affect the selection or application of the methods, assumptions and data used in making a significant accounting estimate, as well as the auditor's evaluation of whether management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting

framework; and, when applicable, whether a significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be most appropriate to the particular circumstances of the entity. The material on qualitative aspects of accounting estimates given in Appendix 2 is moved to ISA (Ireland) 540 (Revised December 2018).

ISA (Ireland) 500, *Audit Evidence*, in relation to "external information sources" - including a definition; amending the requirement in paragraph 7 to clarify that the auditor needs to consider the relevance and reliability of information to be used as audit evidence obtained from an external information source; and extensive additional application material.

ISA (Ireland) 580, *Written Representations* - amending the illustrative representation letter to align with the changes in ISA (Ireland) 540 (Revised December 2018).

ISA (Ireland) 700, *Forming an Opinion and Reporting on Financial Statements* - amending the requirement in paragraph 13(c) to reflect that the auditor evaluates whether related disclosures, as well as the accounting estimates, made by management are reasonable.

ISA (Ireland) 701, *Communicating Key Audit Matters in the Independent Auditor's Report* -editorial changes to the requirement in paragraph 9 and related application material, including to reflect ISA (Ireland) 540 (Revised December 2018) references to a high "degree of" estimation uncertainty.

4. Responses Received

IAASA's consultation closed on 21 September 2018. We received five responses – two from professional accountancy bodies and three from audit firms, which are contained in the Appendix to this statement.

Respondents:

1. Chartered Accountants Ireland
2. CPA Ireland
3. Ernst & Young
4. KPMG
5. PwC

5. Matters on which IAASA Consulted and Summary Responses

A summary of the responses received to the specific questions asked in the consultation, and IAASA's response, are set out below.

No.	Matter on which IAASA sought views
1.	Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to auditing accounting estimates.
Summary of Responses	All respondents supported the proposal to revise ISA (Ireland) 540 and other related conforming amendments.
IAASA Response	IAASA is adopting ISA (Ireland) 540 and conforming amendments to other ISAs as set out in the consultation paper.
2.	If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.
Summary of Responses	All respondents agreed that the Irish supplementary material could be limited to that shown in the exposure draft. One professional body and one audit firm noted that practical queries may arise during the initial implementation of the standard.
IAASA Response	IAASA has not included additional Irish supplementary material in the revised ISA (Ireland) 540. IAASA intends to monitor the IAASB's development of additional materials to contribute to an effective implementation of the revised standard.
3.	Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.
Summary of Responses	All respondents agreed with the proposed effective date.
IAASA Response	IAASA is adopting ISA (Ireland) 540 with an effective date for audits of financial statements for periods beginning on or after 15 December 2019, consistent with the international standard. In line with the FRC, early adoption will be permitted.

6. Conclusion

Following the consultation and having regard to the responses received, IAASA is adopting ISA (Ireland) 540 (Revised December 2018) and the conforming changes to other ISAs (Ireland) as proposed. The effective date is for audits of financial statements for periods beginning on or after 15 December 2019. Early adoption is permitted.

Appendix – Responses Received

1. [Chartered Accountants Ireland](#)
2. [CPA Ireland](#)
3. [Ernst & Young](#)
4. [KPMG](#)
5. [PwC](#)

Irish Auditing & Accounting Supervisory Authority
Millennium Park
Naas
Co. Kildare

21 September 2018

Submitted by email to: submissions@iaasa.ie

Dear Sir or Madam

**Consultation Paper: Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates,
Including Fair Value Accounting Estimates, and Related Disclosures**

The Audit and Assurance Committee (AAC) of Chartered Accountants Ireland is pleased to respond to the proposals set out in IAASA's Consultation Paper noted above regarding the revision of auditing standards in Ireland governing the audit of accounting estimates and the related conforming amendments to other auditing standards.

Overall, we support and welcome the issue of auditing standards relating to accounting estimates that will support a high quality and consistent response by auditors, on a world-wide basis, to what is an increasingly complex component of financial statements. We acknowledge the extensive work that has been carried out by the International Auditing and Assurance Standards Board ('IAASB') to this end, and we note that the proposed ISA (Ireland) will apply the requirements of the proposed final version of ISA 540, as issued by the IAASB in June 2018 (subject to endorsement by the Public Interest Oversight Board ('PIOB') in September 2018).

We do however have some concerns regarding the implementation of the revised standard as discussed below.

Scalability

The revised ISA (Ireland) introduces specific requirements that both are significantly more detailed and demanding than those reflected in the version it will replace. They will apply to audits of the financial statements of both large complex businesses, prepared in accordance with International Financial Reporting Standards, and those of small and medium sized entities in Ireland, which may be prepared, for example, in accordance with FRS 102, Section 1A of that standard (small companies) or FRS 105 (micro companies). We note that the revised ISA has been designed to support a scalable response to auditing both more straightforward issues and those involving complex judgements and processes.

In this context, we suggest that there would be benefit in establishing an 'Implementation Forum' to discuss practical implementation issues that may arise in particular cases in the context of Irish business. The purpose of such a forum would be to support effective and consistent application of the revised ISA across all types and sizes of entity required in Ireland to present audited financial statements. We suggest that such a forum could be established under the aegis of the IAASA Technical Advisory Panel so as to advise IAASA's Board, as appropriate, of implementation issues

Effective date

We support the effective date set out in the revised ISA. However, when setting the proposed effective date, the IAASB did not include any reference to the possibility of early adoption in the ISA as issued following its June 2018 meeting, although its website includes a separate comment that 'early adoption is permitted and encouraged'. We support the inclusion of a specific statement in ISA (Ireland) that early adoption is permitted; however, we suggest there is merit in the suggested 'Implementation Forum' noted above also considering, and responding to, specific queries regarding early adoption. In particular, we consider it important that allowing for early adoption does not result in unrealistic expectations regarding the extent of audit effort regarding estimates that are audited during the period between issue of the revised ISA (Ireland) and the mandated implementation date.

Supplementary guidance

We note that IAASB has issued a Practice Note dealing with the audit of complex financial instruments (IAPN 1) and recommend that IAASA supports the review and updating of this Practice Note as appropriate in the light of the revised ISA 540. We also recommend that consideration is given, by both IAASA and IAASB, to whether equivalent guidance should be developed in relation to other financial statement components involving estimates.

Consultation questions

In relation to the specific questions raised in IAASA's Consultation Paper, we note the following comments:

Q1 Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to auditing accounting estimates.

We agree that ISA (Ireland) 540 and other ISAs (Ireland) identified in the Consultation Paper should be updated as proposed in the light of the revised ISA 540 approved by IAASB.

Q2 If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

We agree that Irish supplementary material can be limited to that incorporated in the exposure draft.

Q3 Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

As noted above, we consider the proposed effective date is appropriate but consider that it is important to establish a process to help support (and monitor) an effective and proportionate response to auditing estimates during the 'lead in' period.

We hope these comments are helpful to IAASA as it considers the revised ISA. It would be useful to discuss the points in more detail with representatives of Chartered Accountants Ireland, I would be happy to make appropriate arrangements.

Yours respectfully



Mark Kenny
Director, Representation and Technical Policy

From: [Emer Kelly](#)
To: [submissions](#)
Subject: Consultation Paper – Proposal to revise ISA (Ireland) 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures,
Date: 21 September 2018 15:54:04

Dear Sir/Madam,

We refer to the Consultation Paper – **Proposal to revise ISA (Ireland) 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**, and welcome the opportunity to respond, given the evolving complexity of financial reporting frameworks in this area and the subsequent impact on the role of the auditor. We have set out below our responses.

1. ***Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to auditing accounting estimates.***

Yes, we agree that ISA (Ireland) 540 and the other conforming amendments should be adopted to ensure the harmonisation of auditing standards globally.

2. ***If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.***

We agree that the Irish supplementary material can be limited to that shown in the exposure draft.

3. ***Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.***

We consider that the effective date is appropriate.

If you have any queries on this matter please contact us.

Kind regards,

Emer Kelly FCA; CPA

Secretary – Audit Practices Sub Committee

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Mr Kevin Prendergast
Chief Executive Officer
Irish Auditing & Accounting Supervisory Authority
Willow House
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Co Kildare

21 September 2018

[Ref: GMC/DQ]

IAASA Consultation Paper: Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures

Dear Mr. Prendergast

We welcome the opportunity to respond to IAASA's Consultation Paper *Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures*, published on 9 August 2018. We are supportive of the role that standard setters and IAASA play in developing auditing standards, which seek to enable auditors to respond to evolving financial reporting frameworks.

As financial reporting standards continue to increase in their complexity, management's processes to prepare accounting estimates also increase in complexity. We understand that the significant revisions to ISA (Ireland) 540 and the conforming amendments to other auditing standards are intended to bring our auditing framework into line with the recently revised standards of the International Auditing and Assurance Standards Board ('IAASB'). We acknowledge the significant work undertaken to date by the IAASB in updating ISA 540 to support high quality audit in the area of increasingly complex accounting estimates. EY responded to the IAASB exposure draft in August 2017 and noted that, overall, the IAASB had identified and understood the relevant issues in practice related to the audit of accounting estimates in the current environment.

We support IAASA's adoption of the amendments to ISA 540 issued by the IAASB to maintain consistency with the International Standards, which demonstrates IAASA's commitment to high quality auditing.

We have also considered ISA (Ireland) 540 on the basis of its capability of being implemented appropriately and consistently in practice. Our views are informed by our practical experiences, including enhancements made in recent years to our EY Global Audit Methodology related to the audit of accounting estimates.

Whilst supporting the adoption of these amendments we would suggest that IAASA continuously review the application of ISA 540 (Ireland) as the practical implementation of new financial reporting frameworks takes place.

Our responses to the specific questions in the Consultation Paper are set out below:

1. **Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to auditing accounting estimates.**

Yes, we agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs.

2. **If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.**

Yes, we agree that the Irish supplementary material can be limited to that shown in the exposure draft however we would encourage continuous review as implementation of new financial reporting standards takes place as well as ensuring consistent application of the standard by auditors

3. **Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.**

We support the proposed effective date being consistent with the effective date of the IAASB's revised ISAs.

We would be pleased to discuss our comments with members of IAASA or its staff, and welcome further engagement with IAASA in due course following the implementation of the revised ISA (Ireland) 540 to discuss any practical matters that may become evident from adoption of the new requirements.

Yours sincerely



Dermot Quinn
Audit Compliance Principal



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Mr Kevin Prendergast
Irish Auditing & Accounting Supervisory
Authority
Willow House
Millennium Park
Naas
Co Kildare

20 September 2018

Dear Mr. Prendergast

IAASA Consultation: Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

KPMG is pleased to provide our comments and observations on the Irish Auditing & Accounting Supervisory Authority's (IAASA) consultation on the 'Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures' issued on 9 August 2018.

We welcome the development of auditing standards that support consistent and high quality audit work by auditors, both locally and internationally, over accounting estimates, which is an area of financial reporting which is becoming increasingly complex. We acknowledge the extensive due process that has been carried out by the International Auditing and Assurance Standards Board ('IAASB') in the development of the revised standard and that it determined that the costs of implementing the new standard will not outweigh the benefits to the public interest of a higher quality audit of accounting estimates and related disclosures.

In relation to the specific matters on which views were sought, our responses are as follows:

- 1) Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to auditing accounting estimates.**

We agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments. We agree the revisions to the underlying international standards represent an improvement to the current standards, which seek to address concerns expressed by regulators and other stakeholders. Therefore, we believe IAASA's standards should remain in alignment with the underlying international standards.

Shaun Murphy • Marie Armstrong • Darina Barrett • Alan Boyne • Brian Brennan • Gareth Bryan • Sharon Burke • Patricia Carroll • Brian Cleavin
Jim Clery • Colm Clifford • Kevin Cohen • Mark Collins • Ivor Conlon • Michele Connolly • John Corrigan • Hubert Crehan
Killian Croke • Brian Daly • Michael Daughton • Eamon Dillon • Paul Dobey • Robert Dowley • Patrick Farrell
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Conall O'Halloran • Sean O'Keefe • David O'Kelly • Joe O'Mara • Garrett O'Neill • Terence O'Neill • Colm O'Sé • Conor O'Sullivan • John Poole
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Offices: Dublin, Belfast, Cork and Galway

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Irish Auditing & Accounting Supervisory Authority
IAASA Consultation: Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and related Disclosures
20 September 2018

- 1) If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.**

We agree that the Irish supplementary material can be limited to that shown in the exposure draft *Proposed ISA (Ireland) 540 (Revised August 2018) Auditing Accounting Estimates and Related Disclosures*.

- 2) Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.**

We agreed the proposed effective date of 15 December 2019 is appropriate. However, we note that early adoption is permitted. We are concerned that in the period prior to the revised standard's effective date there will be a lack of clarity in relation to what is audit effort in relation to accounting estimates is required. In particular, this may result in a lack of comparability of Key Audit Matters communicated in accordance with ISA (Ireland) 701 *Communicating Key Audit Matters in the Independent Auditor's Report* in audit reports.

We hope you find our comments useful. We are committed to contributing to the constructive implementation of the revised ISA 540 'Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures' if you would like to discuss any of the above please contact me.

Yours sincerely

Daniel O'Donovan
Audit Principal, Department of Professional Practice



Mr Kevin Prendergast
Chief Executive
Irish Auditing & Accounting
Supervisory Authority
Willow House
Millennium Business Park,
Naas
Co Kildare, Ireland

21 September 2018

Consultation Paper – Proposal to Revise ISA (Ireland) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures (August 2018)

Dear Kevin

We welcome the opportunity to respond to the above consultation and have set out below our responses to the matters on which views are sought in the consultation paper.

Question 1

Do you agree that ISA (Ireland) 540 and other ISAs (Ireland) should be revised to adopt the revision to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update ISAs (Ireland) in relation to auditing accounting estimates.

We agree that ISA (Ireland) 540 and other ISA (Ireland) standards should be revised to adopt the underlying revised international ISA 540 standard and the related conforming amendments to other ISAs.

Accounting estimates and the related disclosures have a significant impact on the results of operations and financial position presented in financial statements. Recent developments in IFRS (IFRS 9, 15 and 16) have increased the complexity and judgement required in making accounting estimates. The revised international ISA 540 was developed by the IAASB after consultation and extensive outreach with a wide variety of stakeholders. In our opinion, the revised ISA will therefore support high quality audit work in this important area for auditors in Ireland.

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Chartered Accountants

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Question 2

If you agree that the ISAs (Ireland) should be revised to adopt the revised ISA 540 and conforming amendments, do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

We agree with the Irish supplementary material shown in the exposure draft and consider that it is sufficient.

However, given the importance of estimates to financial statements and the inherent complexity in this area, we would welcome a forum to facilitate the discussion of implementation issues between auditors and IAASA as auditors prepare to implement the standard and during the initial implementation period. This would help support consistent application of the revised standard by auditors in Ireland.

Question 3

Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

We agree that the proposed effective date is appropriate. We also are of the opinion that IAASA should permit early adoption of the standard. Whilst we do not anticipate wide scale early adoption of the standard, situations may arise where this may be considered appropriate.

Should you wish to discuss any aspect of this response please feel free to contact the undersigned or Patricia Lynch on 01 792 6291 email patricia.lynch@pwc.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul W O'Connor'.

Paul W O'Connor
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