

Objectives of Agenda Item

The objective of this agenda item is:

1. To discuss respondents' comments on ED-540¹ on the scalability of the ISA, the auditor's response when inherent risk is not low, and the conforming amendments to ISA 500;² and
2. To consider the Task Force's responses to and proposed direction on these comments.

1. Overview of Issues Paper

1. This paper summarizes respondents' comments on certain questions included in the Exposure Draft of proposed ISA 540 (Revised) (ED-540), and the Task Force's responses and proposed direction thereon. This paper focuses on the responses to questions 3 (scalability, including the threshold), 4 (when inherent risk is not low), and 7 (conforming amendments to ISA 500).
2. Draft revised paragraphs of proposed ISA 540 (Revised) are not being presented at this time. The Board's input on the Task Force's responses will assist in developing the drafting for the December IAASB meeting.
3. A summary of recent Task Force activities and outreach is included in Appendix A. An extract from the draft minutes of the September 2017 IAASB meeting related to ISA 540 is included in Appendix B.
4. This paper is organized as follows:
 - Update on the Task Force's consideration of responses (see Section 2);
 - Scalability and the threshold of low/not low inherent risk (see Section 3);
 - Risk factors (see Section 4);
 - Responding to the assessed risks of material misstatement (see Section 5);
 - Restructuring the work effort requirements, including a flowchart to provide members with a high-level overview of the proposed revised structure (see Section 6);
 - Conforming and consequential amendments to ISA 500 (see Section 7); and
 - Application material (see Section 8).
5. For reference, ED-540 is included as **Agenda Item 2-E**.

2. Update on the Task Force's Consideration of Responses

6. In total, 69 comment letters have been received on ED-540. All comment letters are available at www.ifac.org/publications-resources/proposed-international-standard-auditing-540-revised-auditing-accounting and a list of respondents is included in Appendix C.

¹ Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

² ISA 500, *Audit Evidence*

7. The Task Force has focused on analyzing and discussing certain questions from ED-540 that are important from the standpoint of the overall structure and flow of the standard. The detailed analyses of the comments received on questions 3, 4 and 7 in the explanatory memorandum to ED-540 are included as **Agenda Items 2-B to 2-D**. These detailed analyses include notations indicating which respondent(s) made which comment(s).
8. For reference, the Task Force has also prepared detailed analyses of the other questions in ED-540, along with respondents' comments of a general nature, and those analyses are available as supplementary papers, but will not be discussed at the October 2017 IAASB meeting. The Task Force will further discuss those matters, and will present its responses and proposed direction thereon at the December 2017 IAASB meeting.
9. In this paper, and in **Agenda Items 2-B to 2-D**, the following terms have been used:
 - “A respondent” = 1;
 - “A few” = 2–3;
 - “Some” = 4–6;
 - “Several” = 7–11;
 - “Many” = 12–34;
 - “Majority” = more than 50%; and
 - “Significant majority” = greater than ~80%.

Monitoring Group Responses

10. Four member organizations of the Monitoring Group³ responded to ED-540: The Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Forum of Independent Audit Regulators, and the International Organization of Securities Commissions. These comment letters, along with selected other letters, were included in Agenda Item 9-B of the September 2017 IAASB meeting agenda material.
11. The Monitoring Group's responses on questions 3, 4 and 7 from ED-540 are included, and highlighted as appropriate, in the individual analyses in **Agenda Items 2-B to 2-D**.

Matter for IAASB Consideration

The IAASB is asked for its views on:

1. Whether the analysis documents included as **Agenda Items 2-B to 2-D** capture the key points in the comment letters. If not, what else would need to be added and considered by the Task Force?

³ The Monitoring Group comprises the following organizations: Financial Stability Board, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, Basel Committee on Banking Supervision, European Commission, International Association of Insurance Supervisors and The World Bank.

3. Scalability and the Threshold of Low/Not Low Inherent Risk

3.1 What did we hear?

This section summarizes the comments made by respondents on question 3 of ED-540, which asked for respondents' views on the scalability of ISA 540, including when there is low inherent risk. A detailed analysis of the responses to this question is provided as **Agenda Item 2-B**.

Overall Comments about Scalability

12. Overall, many respondents believed that ED-540 was sufficiently scalable, including support for the use of a threshold as a way to drive scalability. Comments in support of ED-540's approach to scalability included that it recognized the differences between low inherent risks and other risks, and that the procedures required were similar to extant ISA 540.⁴ However, many others who supported the IAASB's intention to address scalability expressed concerns about whether the structure of ED-540 would achieve the desired objective of scalability, including with regard to the threshold of "low inherent risk" included in paragraph 15 of ED-540 (see further discussion on the threshold below).
13. Those who did not believe that ED-540 was sufficiently scalable often noted that the ED was too complex or confusing for "simple" estimates,⁵ implied that a checklist or matrix approach would be needed, that substantial levels of documentation would be required, or that the risk assessment requirements (including the requirements related to obtaining an understanding of internal control) were too onerous for simple estimates.
14. Various concerns were expressed that the proposals were impractical or unworkable for mid-tier/smaller practitioners or those not in the financial sector. Views were mixed about guidance on issues relevant to audits of small- and medium-sized entities (SMEs), with some calling for more guidance while others expressed a view that the proposed application material for SMEs was not appropriate.
15. Other respondents wanted an appropriate level of scalability for higher risk estimates, either through developing responses for significant risks or creating a category of "higher" inherent risk. Many of the comments in this regard related to views and perspectives about what the work effort should be (see Section 5 below).
16. The flow chart, which explained the flow of key aspects of the requirements and was issued together with ED-540, was seen to be helpful by many respondents in showing how the standard could be applied in a scalable manner.

Comments on the Threshold of Low/Not Low Inherent Risk

17. Respondents who supported the threshold approach noted that it is not necessary to perform the same level of work for an estimate with 'low' inherent risk as for an estimate with higher inherent risk. Others who supported the threshold, including some regulators, noted that their attention was on the higher risk estimates given their greater relevance to audits of financial institutions. Respondents also noted that more application material may be needed for simple estimates. For many of those

⁴ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

⁵ Respondents referred variously to simple, low risk, or low inherent risk estimates. These have all been grouped under the heading "simple" estimates.

respondents who supported the threshold, there were calls for more examples or lists of items that would fall into low and not low inherent risk.

18. By contrast, many respondents either opposed the threshold or expressed concern and sought clarification thereon. Concerns and comments focused on whether the threshold was operable, whether it aligned with other ISAs (including ISA 315 (Revised)),⁶ and that it was unclear how to apply it to material accounting estimates with low inherent risk.

3.2 Task Force's Response

19. The Task Force noted that respondents supported the IAASB's decision to attempt to specifically address scalability in ED-540, but the mechanism of the threshold of low/not low inherent risk has added to the overall complexity of the ISA, and notes also the concern of a few respondents that it may be susceptible to misapplication.
20. Accordingly, the Task Force considered whether the threshold should be clarified, or whether it should be removed and replaced with an alternative approach to support scalability. In this regard:
 - Retaining the threshold - The Task Force noted that retaining the threshold was supported by certain respondents, and that it may be possible to clarify the operation of the threshold and interactions with other ISAs through additional guidance material. However, this would not be responsive to the concerns about the complexity and practical application of ED-540, and the additional guidance material would not address concerns raised about the length and complexity of the proposed standard.
 - Removing the threshold - The Task Force noted that removing the threshold could address the concerns of respondents about complexity and relationship to other ISAs, while also being responsive to comments that the threshold was not operable in practice. However, removing the threshold means that the desired scalability for all accounting estimates would need to be clearly demonstrated or described in other ways.
21. The Task Force believes that the best route forward is to remove the threshold but keep scalability, simplicity, and practicality at the forefront of the development of the revised requirements. (See also Section 5). The proposed revised ISA should also reinforce the concept of the spectrum of risk, and draw upon the existing material in ISA 315 (Revised) and ISA 330⁷ in this respect.
22. The revised work effort will show how the testing strategies that were included in paragraph 15(a) of ED-540 can be applied to simple estimates in a scalable manner. The Task Force believes that some of the concerns about the application of ED-540 to simple accounting estimates is best addressed through examples (either in the application material or in staff guidance). This will allow the Board to illustrate, in a practical manner, how the requirements can be applied in a proportionate manner to the assessed risks of material misstatement. This will include discussions or examples of how the nature, timing and extent of procedures can be varied.
23. The Task Force also noted respondent's comments regarding whether and how the risk assessment requirements in ED-540 (see paragraph 10 of ED-540) can be applied to an audit when (a) only simple estimates are present and (b) the auditor does not intend to rely on controls. The Task Force

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

will consider whether it is possible to structure the requirements in such a way that, together with appropriate application material, makes it clear how the requirements can be addressed in such circumstances.

24. The flow chart was well received by several respondents, and it was noted during outreach activities that it often provided a clear path through the ISA. The Task Force will consider including a flowchart with the final release of the standard, either in the ISA or accompanying it.

Way Forward for Scalability Proposals

25. Given that the consistent application of ISA 540 (Revised) to the audits of entities of all sizes and to all types of accounting estimates is in the public interest, the Task Force will continue to liaise with relevant parties to understand how the changes being made affect the desired scalability of the ISA.

Matters for IAASB Consideration

The IAASB is asked for its views on:

2. The direction proposed by the Task Force in relation to the scalability of proposed ISA 540 (Revised), including:
 - a) The consideration of removing the threshold of low/not low inherent risk.
 - b) Further emphasizing the spectrum of risk to demonstrate scalability. What could be done to reinforce the spectrum of risk in proposed ISA 540 (Revised)?
 - c) Using examples to demonstrate scalability.
3. Are there other comments related to scalability that the IAASB believes would be useful for the Task Force to consider?

4. Risk Factors

4.1 What Did We Hear?

This section summarizes the comments made by respondents on question 4(b) of ED-540. A detailed analysis of the responses to this question is provided in **Agenda Item 2-C**.

26. Generally, many respondents to ED-540 supported the three risk factors (complexity, judgment and estimation uncertainty), specifically the consideration of the risk factors in identifying and assessing the risks of material misstatement. However, there were mixed views as to whether the response to the assessed risk of material misstatement should be based around each risk factor. Respondents who supported the approach taken by the Task Force generally did not elaborate why they supported it.
27. Respondents who did not support the Board's approach in ED-540 noted that the interrelationship between the risk factors makes it challenging to determine the appropriate response to the assessed risk of material misstatement if each of the three factors needs to be considered or addressed separately. These respondents believed that categorizing responses into three discrete risk factors is not consistent with management's process for making estimates and the auditor's approach to obtaining audit evidence, as management and the auditor often consider accounting estimates more in terms of data, assumptions and methods.

28. Other views related to the risk factors included the following:
- The driver of the risk of material misstatement is estimation uncertainty. Complexity and judgment are related to this factor, and judgment in particular is closely related to estimation uncertainty.
 - The nature, timing and extent of the audit procedures should be based on the risk of material misstatement at the assertion level and financial statement level and not on the risk factors, as the factors are not ‘what could go wrong.’
 - The approach taken in ED-540 could lead to a complicated matrix approach to documenting identified risks of material misstatement, with a combination of assertions and risk factors.

4.2 Task Force’s Response

29. Given the responses received, the Task Force proposes to reduce the complexity caused by the direct link between the risk factors and the response to the assessed risk of material misstatement. See Sections 5 and 6 below for the Task Force’s proposals in this regard.
30. Given the support for consideration of the three risk factors generally, and specifically in the identification and assessment of the risks of material misstatement, the Task Force is of the view that no significant changes need to be made to the risk factors themselves and their consideration in the identification and assessment of the risks of material misstatement.
31. The Task Force discussed making the following changes to paragraph 13 of ED-540 and related application material:
- Better explaining the application of the risk factors throughout the standard, but specifically in the requirement to identify and assess the risks of material misstatement, highlighting how these relate to data, assumptions, and methods (referred to by some respondents as the components or elements of an accounting estimate);
 - Including a reference to other relevant risk factors and making changes to the related application material (paragraph A78 of ED-540) based on the responses received and, indirectly, the proposals of the ISA 315 (Revised) Task Force. This would include explaining that ISA 540 focuses on three factors that are particularly relevant for accounting estimates, but that other risk factors may be relevant (as envisaged in draft revised ISA 315 (Revised)); and
 - In the application material, better explaining the link between the risk factors and assertions. In the Task Force discussions, it was noted that the risk factors inform *why* there is a risk that the estimate is materially misstated.
32. The Task Force will have further discussions on how to incorporate the above changes into the requirement to identify and assess the risks of material misstatement, and related application material and will be seeking to align with the current approach taken by the ISA 315 (Revised) Task Force.

Matter for IAASB Consideration

The IAASB is asked for its views on:

4. The proposed direction with respect to paragraph 13 in ED-540 regarding the identification and assessment of the risks of material misstatement.

5. Responding to the Assessed Risk of Material Misstatement

5.1 What Did We Hear?

This section summarizes the comments made by respondents on question 4(a) of ED-540. A detailed analysis of the responses to this question is provided in **Agenda Item 2-C**.

33. Many respondents to ED-540 were of the view that the structure of paragraphs 14–20 is unclear, complex, too granular/prescriptive, not intuitive, and not sufficiently objectives-based. As a result, respondents noted that the standard may be difficult to apply in practice, may lead to inconsistencies in application and interpretation, may drive a checklist mentality, and may result in less professional judgment and professional skepticism being applied.
34. With respect to the structure of the work effort section, respondents noted specifically that it is unclear whether:
 - The testing strategies for low inherent risk accounting estimates, as included in paragraph 15(a), are applicable to all accounting estimates, including those with an inherent risk that is not low.
 - The testing objectives in paragraphs 17–20 may also be applicable for estimates with low inherent risk.
 - Certain testing objectives in paragraphs 17–20 are always related to a single risk factor (e.g. certain testing objectives for complexity may also be applicable for judgment).

5.2 Task Force's Response

35. Given the nature and extent of the comments received, the Task Force discussed possible ways to restructure the work effort paragraphs (paragraph 14–20 in ED-540) to respond to the comments received.

Testing Strategies

36. In ED-540, the following three testing strategies were included specifically for low inherent risks and were available for not low inherent risks (Paragraph 15(a) in ED-540):
 - Obtaining audit evidence about events occurring up to the date of the auditor's report;
 - Testing how management made the accounting estimate and the data on which it is based; and
 - Developing a point estimate or range based on available audit evidence to evaluate management's point estimate.

37. In its deliberations relating to ED 540, the Board made it clear that the testing strategies were intended to be available for the auditor's response to both low and test not low inherent risks. However, respondents were of the view that it this point was not clear, particularly whether these testing strategies were also available for not low inherent risks, or how the objectives-based requirements in paragraph 17–20 of ED-540 could be applied in using these testing strategies.
38. Given the above, the Task Force is of the view that the clarity of the standard will be enhanced by including the testing strategies in a separate requirement that applies to the assessed risks of material misstatement for all accounting estimates. This approach would be similar to extant ISA 540, and also would be consistent with the approach taken by the Public Company Accounting Oversight Board (PCAOB). The requirement or application material could explain that one or a combination of the testing strategies can be selected in responding to the assessed risk of material misstatement.
39. The Task Force will explain that:
 - One or a combination of the testing strategies can be selected in responding to the assessed risk of material misstatement.
 - The risk factors will inform, instead of drive, the auditor's decisions about which testing strategy is selected.
 - The auditor's understanding of how management makes the accounting estimate should inform the auditor's decisions about which testing strategy is selected. For example, when the risk assessment indicated that there is a risk that management has not appropriately understood and addressed estimation uncertainty and the assessment of the risks of material misstatement includes estimation uncertainty, the auditor may recognize that an auditor's point estimate or range will need to be developed – regardless of what other testing strategy/objective the auditor believes is necessary.

Controls Testing

40. Paragraph 16 of ED-540 reinforces the need to test the operating effectiveness of controls when the auditor intends to rely on those controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. Respondents had limited comments on this paragraph. Therefore, the Task Force is of the view that it should be retained with limited changes to also highlight that, for significant risks, tests of controls needs to be performed in the current period if the auditor plans to rely on controls.

Work Effort Paragraphs

41. The Task Force discussed possible solutions to concerns raised about the clarity, understandability, and practicality of the work effort requirements (paragraphs 17–20).
42. The Task Force agreed with respondents who suggested the objectives-based requirements be structured around the three testing strategies. The Task Force recognizes that this approach will be similar to extant ISA 540. The Task Force believes that retaining the objectives-based requirements under this alternative structure is responsive to those stakeholders who supported the level of granularity in ED-540, as well as to those who wanted improvements to the clarity, understandability, and operability of the standard.

43. The Task Force is of the view that the work effort of ISA 540 (Revised) could further be structured based on data, assumptions and methods instead of the risk factors (complexity, judgment and estimation uncertainty). The Task Force believes that this would make designing the response to risks of material misstatement more logical for the auditor, as it would be more consistent with how management makes the estimate and the audit evidence that is likely available. This approach is similar to what several respondents suggested and the approach taken by the PCAOB.
44. The application material could explain:
- How the risk factors (complexity, judgment and estimation uncertainty) affect the auditor's work effort relating to data, assumptions and methods.
 - That the higher the risk, the more persuasive the audit evidence needs to be, including highlighting the spectrum of risk.
45. Paragraphs 17, 18 and 19 of ED-540 included several objectives that the procedures selected by the auditor need to accomplish. The Task Force discussed whether to retain these objectives-based requirements or whether they should be replaced with actual procedures, similar to the approach taken by the PCAOB. Given that ISA 540 (Revised) will be used for all accounting estimates, from simple to complex, and that respondents did not have many comments on the objectives-based requirements themselves, the Task Force is of the view that the objectives-based requirements should be retained, but restructured as described above.

Specialized Skills and Knowledge⁸

46. A few respondents commented on paragraphs 14 and 16 of ED-540 relating to determining the need for specialized skills and knowledge. Based on the suggestions received, the Task Force will consider whether the two requirements can be merged into one requirement that covers the risk assessment procedures, as well as the identification and assessment of, and the response to, the assessed risks of material misstatement.

Significant Risk⁹

47. Some respondents commented on the role that significant risk plays in ED-540. The Task Force discussed again whether specific procedures would be required for significant risks that are different from procedures performed for other risks of material misstatement, and did not identify any. Given the limited number of respondents who raised this point, and in light of the proposal to include information regarding the spectrum of risk in the standard, the Task Force is of the view that no specific requirements for significant risks should be included in ISA 540 (Revised), other than the change proposed to paragraph 16 of ED-540 (see paragraph 40 of this paper). The Task Force did note that guidance could be useful to explain the Task Force's rationale.

⁸ See **Agenda Item 2-C**, Section II-D

⁹ See **Agenda Item 2-C**, Section II-D

Matter for IAASB Consideration

The IAASB is asked for its views on:

5. The proposed direction with respect to the response to the assessed risk of material misstatement, including the:
 - a) Testing strategies requirement, as set out in paragraphs 36-39,
 - b) Control testing requirement as set out in paragraph 40; and
 - c) Work effort requirements as set out in paragraphs 41-45.

6. Restructuring of the Work Effort Requirements

48. The Task Force's discussions of the comments received on scalability, the risk factors, and the response to the assessed risk of material misstatement highlighted that enhancements to the structure of the work effort requirements could alleviate some of the concerns raised with respect to the clarity, readability, and operability of the standard.
49. As a result, the Task Force proposes to change the structure of the work effort so that it follows an approach to auditing accounting estimates that is more closely aligned with the way management makes accounting estimates and how the auditor audits them. Under the new structure, the response to the assessed risk of material misstatement is driven by the selected testing strategy. For each of the testing strategies, the Task Force will develop objectives-based requirements structured around data, assumptions and methods. The application material could explain how the risk factors (complexity, judgment and estimation uncertainty) affect the auditor's work effort relating to data, assumptions and methods. The objectives-based procedures will vary to some extent depending on the strategy chosen. The Task Force will have further discussions on the revisions that will be needed, but the starting point will be the objectives-based requirements included in ED-540.
50. The flow chart included in appendix D sets out how the Task Force proposes to restructure the requirements that were in paragraphs 13–20 of ED-540. This flowchart is only to illustrate the proposed structure and is not intended to be included in ED 540.
51. References to paragraph numbers from ED-540 are provided for convenience, but the exact wording of the paragraphs will likely change as the Task Force develops draft proposals in light of respondent's comments. References to the paragraphs in the issues paper where the step is explained are also included in the flow chart.

Matter for IAASB Consideration

The IAASB is asked for its views on:

6. The proposed restructuring of the main work effort requirements, including whether the proposed flow of these requirements will help to address concerns raised with respect to the clarity, readability, and operability of the standard.

7. Conforming and Consequential Amendments to ISA 500

7.1 What Did We Hear?

This section summarizes the comments made by respondents on question 7 of ED-540. A detailed analysis of the responses to this question are provided in **Agenda Item 2-D**.

52. Generally, respondents were supportive of the proposed intent of the changes and enhanced focus on the consideration of the relevance and reliability of information obtained from an external information source (EIS). A few respondents did, however, highlight the proposed future project to revise ISA 500 and indicated a preference to defer making changes until the ISA 500 project can consider all potential changes in a more holistic manner.
53. Other comments received primarily focused on three topics: the proposed definition of EIS; proposed new application material in support of the amended requirement in paragraph 7 of the standard; and the linkage between proposed ISA 540 (Revised) and ISA 500.

Definition

54. Many respondents raised concern over the use of the term “publicly available” in the definition of EIS. Those words were considered ambiguous and at risk of differing interpretation. For example, it was highlighted that this could inadvertently limit the scope of the definition to only that information that was freely available to the public.

Application material

55. A range of comments were received on the proposed application material. Similar to ED 540 itself, these ranged from stating that the volume of material was too voluminous and risked creating expectations of a work effort that could not be met in practice, to views that the guidance was insufficient and did not adequately address various challenges encountered in trying to evaluate relevance and reliability of information from certain external sources.
56. A few respondents also indicated a need to address when the auditor, as opposed to management, makes use of an EIS.

Linkage between ISA 540 (Revised) and ISA 500

57. Several respondents called for a more direct link between proposed ISA 540 (Revised) and the changes being suggested to ISA 500 to better draw attention to the important new guidance. Other respondents indicated a preference for relocating the proposed changes to ISA 540 itself.

7.2 Task Force’s Response

58. The Task Force has had a preliminary discussion about the potential way forward in addressing the comments received. Given the overall broad support for the proposed changes, the Task Force does not believe it is in the public interest to defer making changes to ISA 500 as suggested by respondents.
59. As such, the Task Force has considered the three broad areas of comment to develop some initial thinking on how best to address the points raised. This initial thinking is outlined below and will be further discussed by the Task Force at its physical meeting in November.

Definition

60. The Task Force acknowledges the concern about unclear definitions and intends to explore alternative words that can better convey what was intended by the words “publicly available.” In doing so, the Task Force intends to retain the emphasis, as set out in the application material, on the fact that the information has not been generated specifically for the entity alone.

Application Material

61. The Task Force intends to work through each of the specific comments received on the application material to determine where and how clarifications can be made to address perceived gaps and further illustrate the work effort that may be appropriate in given circumstances to help support more consistent application.
62. In addition, the Task Force intends to obtain further feedback on responses to the PCAOB’s recent proposed standard, specifically the content addressing third-party pricing services, to help inform potential further clarifications to the application material.

Linkage between ISA 540 (Revised) and ISA 500

63. In finalizing ED 540, the Board decided not to incorporate the proposed new application material on EIS within ISA 540, directing the Task Force to proceed with conforming amendments to ISA 500. Notwithstanding that previous direction, the Task Force will further discuss the few comments that suggested changes to ISA 500 would better be located within ISA 540, including considering whether any of the proposed changes would best be relocated elsewhere (for example, material on third-party models could potentially be relocated to ISA 540, which more directly addresses considerations related to models).
64. Several respondents called for a more explicit linkage from ED-540 to the new application material in ISA 500 in respect of both information from an EIS and work of a management expert. The Task Force was of the view that such a linkage would be useful and will discuss further how to best establish such a link, including consideration of whether this should address both EIS and when information to be used as audit evidence has been prepared by management’s expert.

Matter for IAASB Consideration

The IAASB is asked for its views on:

7. The proposed direction with respect to the conforming amendments to ISA 500, including:
- a) The Task Force’s proposal to clarify the definition of an external information source to address concerns about the phrase “publicly available”; and
 - b) The Task Force’s proposal to draw attention in proposed ISA 540 (Revised) to the new material on external information sources in ISA 500.

8. Application Material

This section summarizes the comments made by respondents on question 4(c) of ED-540. A detailed analysis of the responses to this question is provided in **Agenda Item 2-C**.

65. There were differing views about the sufficiency of the guidance included in ED-540. Many respondents noted that sufficient guidance was included in ED-540, with some also suggesting areas where further guidance would be useful. On the other hand, some respondents were of the view that too much guidance was included, adding to the complexity and lack of understandability of ED-540, and that too much of the application material was educational in nature.
66. Given these varying requests and the changes the Task Force will make to the work effort section, the Task Force has decided to consider the requests for additional application material at a later stage.
67. As a next step, the Task Force will discuss an analysis of the application material being performed by a national auditing standard setter. The analysis will highlight areas in the application material that might be considered educational and/or duplicative, and may therefore be better placed in an appendix or outside the standard (e.g., a staff publication or other non-authoritative guidance). The Task Force will also consider the suggestions received on moving certain application material to the requirements.

Appendix A

Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the recent activities of the Task Force, including outreach and coordination with other IAASB Task Forces and Working Groups relating to the ISA 540 project.

Task Force Activities since the last IAASB Discussion

2. The ISA 540 Task Force has held one physical meeting and one teleconference since the IAASB discussion in September 2017.
3. The ISA 540 Task Force met once with the ISA 315 (Revised) Task Force at the September 2017 IAASB meeting.

Outreach

4. The leadership of the ISA 540 Task Force has had teleconferences with representatives of the Basel Committee on Banking Supervision and the Global Public Policy Committee, presented to the Committee of European Auditing Oversight Bodies and had a meeting with representatives of the Office of the Superintendent of Financial Institutions Canada.

Appendix B

Draft Minutes of the September 2017 Board Meeting

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

The Board received an overview of the comment letters received on proposed ISA 540 (Revised). The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement.

The Board asked the ISA 540 Task Force to:

- Look at ways to restructure the proposed ISA to improve its clarity and readability. Suggestions made included:
 - Focus on data, assumptions and methods instead of the risk factors (complexity, judgment and estimation uncertainty) in the response to the assessed risk of material misstatement;
 - Make the testing strategies more prominent;
 - Reduce the application material by redrafting the application material in simpler language, removing duplicate material and by moving educational application material into an International Auditing Practice Note (IAPN) or an appendix; and
 - Explain the link between the risk factors and assertions better.
- Follow up on the field testing results.
- Consider whether there are other ways to make the proposed standard scalable, other than the threshold of low/not low inherent risk, for example through the spectrum of risk.
- Consider how best to obtain the views of key stakeholders about the changes that will be made through the coming months.
- Continue to liaise with:
 - The ISA 315 (Revised) Task Force on the risk factors and other matters related to the identification and assessment of the risk of material misstatement; and
 - The Professional Skepticism Working Group;

The Board also noted the importance of issuing a high-quality standard while being mindful of the public interest in finalizing the ISA in a timely fashion.

The Board also received a presentation from Mr. Baumann and Ms. Vanich of the Public Company Accounting Oversight Board's (PCAOB's) staff on the PCAOB's accounting estimate standard that was exposed shortly after proposed ISA 540 (Revised).

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that the CAG discussed the timing for finalizing the standard and that the CAG was of the view that high-quality standards should never be compromised. The CAG also highlighted the importance of aligning the IAASB's and PCAOB's proposals on auditing accounting estimates.

PIOB OBSERVER REMARKS

Ms. Stothers complimented the Task Force on the preliminary analysis and noted the interest of the PIOB in how the Task Force will move this project forward given the diverse responses received.

WAY FORWARD

The IAASB is holding a special meeting in October 2017 to progress proposed ISA 540 (Revised).

Appendix C

List of Respondents to ISA 540 (Revised) Exposure Draft

NOTE: MEMBERS OF THE MONITORING GROUP ARE SHOWN IN BOLD BELOW.

#	Abbrev.	Respondent (69)	Region
Investors and Analysts (2)			
1.	CFA	CFA Institute	GLOBAL
2.	CRUF	Corporate Reporting Users' Forum	GLOBAL
Those Charged with Governance (1)			
3.	AICD	Australian Institute of Company Directors	AP
Regulators and Oversight Authorities (9)			
4.	BCBS	Basel Committee on Banking Supervision	GLOBAL
5.	CEAOB	Committee of European Auditing Oversight Bodies	EU
6.	EBA	European Banking Authority	EU
7.	ESMA	European Securities and Markets Authority	EU
8.	IAIS	International Association of Insurance Supervisors	GLOBAL
9.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
10.	IOSCO	International Organization of Securities Commissions	GLOBAL
11.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
12.	UKFRC	Financial Reporting Council – UK	EU
National Auditing Standard Setters (9)			
13.	AUASB	Australian Auditing and Assurance Standards Board	AP
14.	CAASB	Canadian Auditing and Assurance Standards Board	NA
15.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
16.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
17.	IDW	Institut der Wirtschaftsprüfer	EU
18.	JICPA	The Japanese Institute of Certified Public Accountants	AP
19.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP
20.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
21.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP

Accounting Firms (10)¹⁰			
22.	BDO*	BDO International Limited	GLOBAL
23.	CHI*	Crowe Horwath International	GLOBAL
24.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
25.	EYG*	Ernst & Young Global Limited	GLOBAL
26.	GTI*	Grant Thornton International Ltd	GLOBAL
27.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
28.	PKF*	PKF International Limited	GLOBAL
29.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
30.	RSM*	RSM International	GLOBAL
31.	SRA	SRA (Samenwerkende Register Accountants) (Netherlands Network)	EU
Public Sector Organizations (8)			
32.	ACAG	Australasian Council of Auditors-General	AP
33.	AGA	Auditor General of Alberta	NA
34.	AGC	Auditor General Canada	NA
35.	AGNZ	Auditor General of New Zealand	AP
36.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
37.	GAO	United States Government Accountability Office	NA
38.	INTOSAI	Financial Audit and Accounting Subcommittee of INTOSAI	GLOBAL
39.	PAS	Provincial Auditor Saskatchewan	NA
Preparers of Financial Statements (1)			
40.	ABA	American Bankers Association	NA
Member Bodies and Other Professional Organizations (25)			
41.	ACCA- CAANZ	Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand	GLOBAL
42.	AE	Accountancy Europe	EU
43.	AICPA	American Institute of Certified Public Accountants	NA
44.	ANAN	Association of National Accountants of Nigeria	MEA
45.	CAI	Chartered Accountants Ireland – Audit and Assurance Committee	EU
46.	CAQ	Center for Audit Quality	NA
47.	CPAA	CPA Australia	AP

¹⁰ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#).

48.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
49.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas (Argentine Federation of Professionals Councils of Economic Sciences)	SA
50.	IAA	International Actuarial Association	GLOBAL
51.	IAAA	Interamerican Accounting Association	SA
52.	IBRACON	Instituto dos Auditores Independentes do Brasil	SA
53.	IBR-IRE	Institut des Réviseurs d'Entreprise/ Instituut van de Bedrijfsrevisoren	EU
54.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
55.	ICAG	Institute of Chartered Accountants (Ghana)	MEA
56.	ICAP	The Institute of Chartered Accountants of Pakistan	AP
57.	ICAS	Institute of Chartered Accountants of Scotland	EU
58.	ICAZ	Institute of Chartered Accountants of Zimbabwe	MEA
59.	ISCA	Institute of Singapore Chartered Accountants	AP
60.	ICASL	The Institute of Chartered Accountants of Sri Lanka	AP
61.	ICPAK	Institute of Certified Public Accountants of Kenya	MEA
62.	KICPA	Korean Institute of Certified Public Accountants	AP
63.	NASBA	National Association of State Boards of Accountancy	NA
64.	SAICA	South African Institute of Chartered Accountants	MEA
65.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
Academics (1)			
66.	GC	Steven Glover (Brigham Young University) and Brant Christensen (University of Missouri)	NA
Individuals and Others (3)			
67.	CYGNUS ATRATUS	Cygnus Atratus	EU
68.	NDEG	New Delhi Expert Group	AP
69.	MANTRI	Vishnu Dutt Mantri	AP

Flow Chart of Restructured Work Effort Requirements

The risk factors (complexity, judgment and estimation uncertainty), as well as data, assumptions and methods, play a central role throughout the identification, assessment and response to the risks of material misstatement, including the selection of the testing strategy.

