

Discussion of Significant Issues and the Task Force’s Responses

Significant Matters from the Comment Letters	Reference	Task Force Response
Paragraph 8 (Objective)		
- The evaluation criterion for disclosures: “reasonable” or “adequate”	See Agenda Item 2	- The Task Force continues to support “reasonable” as the criterion for evaluating disclosures relating to accounting estimates.
- Conforming amendments to other ISAs (ISA 700 (Revised), ¹ ISA 705 (Revised) ² and ISA 450) ³ to address inconsistencies in terminology.	See Section 3 in Agenda Items 2	- The Task Force is proposing a conforming amendment to paragraph 13(c) of ISA 700 (Revised).
- Consistent use of the terms ‘appropriate’, ‘adequate’, and ‘reasonable.’		- The Task Force will do a complete analysis of the use of these terms throughout the standard and conforming amendments after the December 2017 IAASB meeting.
Paragraph 9 (Definitions)		
- Definitions for <ul style="list-style-type: none"> • Data or significant data; • Assumptions or significant 	See Agenda Items 2-B and 2-D.	<ul style="list-style-type: none"> - The Task Force does not support the addition of any new definitions. However, the Task Force does support moving some of the descriptions of these concepts to the “Key Concepts” section of the ISA. - The Task Force also proposes to add the term “further audit procedures” to the

¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

³ ISA 450, *Evaluation of Misstatements Identified during the Audit*

Significant Matters from the Comment Letters	Reference	Task Force Response
<p>assumptions;</p> <ul style="list-style-type: none"> • Specialized skills and knowledge; and • Further audit procedures. 		Glossary, using the wording from paragraph A10(b) of ISA 500. ⁴
<ul style="list-style-type: none"> - All data would need to be considered, rather than just significant data. 	See Agenda Item 2-B	<ul style="list-style-type: none"> - The Task Force has reviewed references to 'significant data' in the requirements and removed 'significant' in one place. The Task Force continues to believe that it is in the public interest for the auditor, in particular circumstances, to focus on significant data (see, for example, paragraphs 10(i)(ii)(c) and 17D of Agenda Item 2-B).
<ul style="list-style-type: none"> - The term 'monetary amount' in paragraph 9(a) should be removed. 		<ul style="list-style-type: none"> - The Task Force continues to believe that the term 'monetary amount' is an essential part of the definition to avoid increasing the scope of the standard to cover estimates within estimates (for example, an estimate of useful life, which is treated as an assumption in the Exposure Draft (ED) of proposed ISA 540 (Revised)).⁵ (ED-540)
Paragraph 10 (Risk Assessment Procedures)		
<ul style="list-style-type: none"> - Concerns about the scalability of paragraph 10, particularly for simpler estimates and when applying the requirement to understand the components of internal control 	See Section 2 of Agenda Item 2 and Agenda Item 2-B)	<ul style="list-style-type: none"> - The Task Force will continue to seek further ways to address scalability for this requirement and throughout the standard.

⁴ ISA 500, *Audit Evidence*

⁵ Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Significant Matters from the Comment Letters	Reference	Task Force Response
<ul style="list-style-type: none"> - Clarifying the relationship with ISA 315 (Revised), including clarifying whether, and how, paragraph 10 applies to estimates or each estimate 	<p>See Agenda Item 2-B</p>	<ul style="list-style-type: none"> - Changes were made to better align with ISA 315 (Revised),⁶ including the addition of subheadings within the requirement. The Task Force also integrated paragraphs 10(d), (e) and (f). - Regarding the 'estimate' vs. 'estimates' issue, the Task Force has aligned with ISA 315 (Revised) and 330,⁷ which leave this to the judgment of the auditor. These ISAs focus on, respectively, identifying and assessing the risks of material misstatement at the assertion level for classes of transactions, account balances and disclosures, and then responding to each assessed risk.
<ul style="list-style-type: none"> - Recognize the risk factors and reinforce the requirements regarding methods, assumptions, and data 	<p>See Agenda Item 2-B</p>	<ul style="list-style-type: none"> - Changes were made to reinforce the requirement in this regard, and to reorganize relevant application material where necessary.
<ul style="list-style-type: none"> - Concerns about the overall clarity and length of the paragraph and related application material 	<p>See Agenda Items 2 (Section 5) and 2-B</p>	<ul style="list-style-type: none"> - As noted above, the Task Force made changes to better align the requirement with ISA 315 (Revised) as this was the source of some of the concerns about the clarity and length of the requirements. The Task Force also reordered the material and simplified wording where possible.
Paragraph 11 (Retrospective Review)		
<ul style="list-style-type: none"> - The retrospective review should apply to more than just the accounting estimates in the immediately preceding financial statements 	<p>See Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force has amended the requirement to address "previous accounting estimates."

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*

Significant Matters from the Comment Letters	Reference	Task Force Response
<ul style="list-style-type: none"> - Clarification of whether the paragraph was intended to apply to all estimates, or should be limited to a subset 		<ul style="list-style-type: none"> - The Task Force noted that the paragraph already indicates that the nature and extent of the review takes into account the characteristics of the estimate, and believed it was impractical to try to draw a bright line on which estimates (or the data or assumptions used to make that estimate) should be excluded – as was noted by the IAASB in finalizing ED-540.
Paragraphs 12 & 14 (Specialized Skills and Knowledge)		
<ul style="list-style-type: none"> - Merge the two requirements into one overall requirement, or remove the requirement at the risk assessment stage 	See Agenda Item 2-B	<ul style="list-style-type: none"> - The Task Force has merged paragraphs 12 and 14 from ED-540 into a single requirement.
Paragraph 13 (Identifying and Assessing the Risks of Material Misstatement)		
<ul style="list-style-type: none"> - Support for the three risk factors (complexity, judgment and estimation uncertainty). 		<ul style="list-style-type: none"> - The Task Force is of the view that the inherent risk factors should be retained in the identification and assessment of the risks of material misstatement. - To align the risk factors with the proposals of the ISA 315 Task Force and the Public Company Accounting Oversight Board's (PCAOB) proposed standard, the Task Force changed the factor 'judgment' to 'subjectivity'. - In considering inherent risk factors, based on joint discussion between the ISA 540 and ISA 315 Task Forces, a conforming amendment, as supported by the Board, has been proposed to ISA 200 paragraph A42 to remove reference to a combined assessment of inherent and control risk. Refer to Section 6 of Agenda Item 2.
<ul style="list-style-type: none"> - Provide more prominence to the risk factor estimation uncertainty as it influences the other factors 	See paragraph 13 of Agenda Item 2-B	<ul style="list-style-type: none"> - In ED-540, the risk factors (complexity, judgment and estimation uncertainty) were included in a single list. In the revised version of ED-540, the Task Force included estimation uncertainty more prominently by separating the requirement

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		to consider it (see paragraph 13(a)) from the requirement to consider the other risk factors (see paragraph 13(b)).
- Focus on the extent of the factors and not its existence given that the risk factors are present in all accounting estimates	See paragraph 13 of Agenda Item 2-B	- The Task Force emphasized the need to consider the extent to which the risk factors affect susceptibility to misstatement by adding 'the degree to which ...' before the risk factors.
- Place more emphasis on risk factors other than complexity, judgment and estimation uncertainty	See paragraph 13 of Agenda Item 2-B	- The Task Force included 'or other relevant factors' in paragraph 13(b) and aligned the rest of the standard with this wording. The Task Force will further consider whether changes to the application material are needed.
- Make a clearer link between paragraph 10 (risk assessment procedures) and the three risk factors in paragraph 13.		<ul style="list-style-type: none"> - The Task Force included the risk factors and references to methods, assumptions and data in both paragraphs. - In addition, paragraph A78 clarifies that the information obtained in the risk assessment may inform the auditor's identification an assessment of the risks of material misstatement.
Paragraph 13A (Determination of Significant Risks)		
- Improve the clarity and readability of the standard.	See paragraph 13A of Agenda Item 2-B	- To improve clarity and readability, the Task Force moved the determination of whether any of the identified risks give rise to a significant risk into a separate requirement in paragraph 13A. This wording was included in a single requirement in paragraph 13 of ED-540.

Paragraph 15 (Threshold and Testing Strategies)		
<ul style="list-style-type: none"> - Many respondents believed that ED-540 was sufficiently scalable, including indicating support for the use of a threshold as a way to drive scalability - Many other respondents 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” 	<p>See Section 2 of Agenda Item 2</p>	<ul style="list-style-type: none"> - Based on the discussion with the IAASB at the October 2017 meeting, the Task Force is continuing its direction of removing the threshold and further exploring alternatives to emphasize and demonstrate scalability.
<ul style="list-style-type: none"> - Make the testing strategies for low inherent risk accounting estimates applicable to all accounting estimates, including those with an inherent risk that is not low. 	<p>See paragraph 15 of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - By changing the construct of paragraph 15, the Task Force intends to clarify the intent of ED-540 that the testing strategies are available for all accounting estimates. The testing strategies played a central role in extant ISA 540⁸ as they also do in the PCAOB's proposed standard on accounting estimates.
Paragraphs 16-16A (Tests of Controls)		
<ul style="list-style-type: none"> - General support for the requirement in paragraph 16 of ED-540 	<p>See paragraph 16–16A of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - Given the support for paragraph 16 in ED-540, the Task Force retained the requirement and enhanced it to respond to certain comments received by adding that: <ul style="list-style-type: none"> • The design and performance of tests of relevant controls shall be responsive to the reasons for the risks of material misstatement; and • The auditor shall take into account that the greater the reliance placed on the effectiveness of a control, the more persuasive the audit evidence needs

⁸ ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

		<p>to be.</p> <ul style="list-style-type: none"> - The Task Force also made some changes to enhance the understandability and readability of the requirement and will consider whether application material for this requirement, and for paragraphs 10 and 13, can enhance the emphasis on control risk and greater likelihood that controls will be relevant to the audit for certain types of estimates. - In addition, the Task Force added a new requirement (paragraph 16A) relating to testing relevant controls for a significant risk.
<ul style="list-style-type: none"> - Include an explicit reference to the design effectiveness of controls relating to accounting estimates 		<ul style="list-style-type: none"> - The Task Force will further consider how best to address in ISA 540 the design effectiveness of relevant controls relating to accounting estimates, recognizing that paragraph 13 of ISA 315 (Revised) requires the auditor to evaluate the design of controls relevant to the audit, and determine whether they have been implemented.
<ul style="list-style-type: none"> - Enhance the requirement and application material to better assist auditors in recognizing the circumstances in which, in today's environment, sufficient appropriate evidence cannot be obtained for the components of the estimate 		<ul style="list-style-type: none"> - In addition to the points above, the Task Force intends to further enhance the application material related to testing controls, including when testing relevant controls may be appropriate for certain types of estimates.
<p>Paragraphs 17-19 (Responses to the Assessed Risks of Material Misstatement)</p>		
<ul style="list-style-type: none"> - Concerns around the clarity, readability, operability of the standard 	<p>See paragraph 17–18C of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force made considerable changes to the work effort paragraphs to address the concerns raised by respondents. The work effort is restructured around methods, assumptions and data rather than around the inherent risk factors as in ED-540. - Details about the restructuring are included below.
<ul style="list-style-type: none"> - Make the response to risks of 	<p>See paragraph</p>	<ul style="list-style-type: none"> - The Task Force has based the response to the assessed risks of material

<p>material misstatement more intuitive for the auditor, as well as consistent with how management makes the estimate and how audit evidence is available, by describing relevant risk factors for an accounting estimate based on how they relate to the different components of the estimate (i.e. data, assumptions and methods/models);</p>	<p>17–18C of Agenda Item 2-B</p>	<p>misstatement around the testing strategy selected. This approach is similar to what was proposed to the Board in October 2017.</p> <ul style="list-style-type: none"> - The following three testing strategies that were previously included in paragraph 15(a) of ED-540 are now included in paragraph 15, with separate objectives-based requirements for each of the testing strategies: <ul style="list-style-type: none"> • Determining whether events occurring up to the date of the auditor's report provide audit evidence regarding the risks of material misstatement (paragraph 17); • Testing how management made the accounting estimate (paragraphs 17A-17H); and • Developing an auditor's point estimate or range (paragraphs 18-18C). - The Task Force reorganized the objectives-based requirements that were included in paragraphs 17-20 in ED-540 around each of the testing strategies and added, where needed, new requirements. The application material will explain how the risk factors relate to the responses to the assessed risks of material misstatement (and the reasons for the assessment given to those risks in accordance with paragraph 7(a) of ISA 330). - Based on the comments received, the Task Force also included a reference to ISA 500 with respect to the use of external information sources (paragraph 17E). The Task Force was also of the view that adding a reference back to ISA 500 for when management uses a management's expert would be useful (paragraph 17F).
<ul style="list-style-type: none"> - Make testing objectives in paragraph 17-20 available to all accounting estimates; 	<p>See paragraph 15 of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force believes that the revisions to the requirement in paragraph 15 will clarify that the testing strategies, and the related objectives-based requirements, are available for all accounting estimates.
<ul style="list-style-type: none"> - Make testing objectives in paragraph 17-20 available to accounting estimates with low 		<ul style="list-style-type: none"> - See previous point.

inherent risk.		
- Include subsequent events testing more prominently.	See paragraph 17 of Agenda Item 2-B	- Determining whether events occurring up to the date of the auditor report provides audit evidence regarding the risks of material misstatement has been given more prominence for all accounting estimates by including it as one of the testing approaches in paragraph 15.
- Conflate the objectives-based requirements in paragraphs 17-19 into a single list focused on the underlying components of accounting estimates (i.e., method, significant data, significant assumptions, model) accompanied by appropriate evaluations of estimation uncertainty that arise from these underlying components	See paragraph 15 and 17–18C of Agenda Item 2-B	- The Task Force believes that it has appropriately responded to this point and other comments received by including the testing approaches in paragraph 15 to clarify that these approaches would apply to any type of estimate, and reorganizing the objectives-based requirements to align with the testing strategies, with references to methods, assumptions and data, and management's selection of a point estimate and disclosures.
Paragraph 19(b) (Development of an Auditor's Point Estimate or Range)		
- Regarding paragraph 19(b), before developing an auditor's point estimate or range when management has not appropriately understood and addressed the estimation uncertainty, require the auditor to first request management to consider alternative assumptions or provide additional disclosures relating to the estimation uncertainty (including whether paragraph A126 should be elevated to a requirement)	See Appendix D of Agenda Item 2	- Task Force discussed elevating paragraph A126 and will give further consideration to this point.

<ul style="list-style-type: none"> - Expand paragraph 19(b) and related application material to provide guidance on the auditor's responsibility for evaluating the point in the range chosen by management, when management has developed a range within which an accounting estimate may reasonably fall. 		<ul style="list-style-type: none"> - The Task Force will consider further application material to provide guidance on the auditor's responsibility for evaluating the point in the range chosen by management.
<ul style="list-style-type: none"> - Concerns that paragraph 19(b) and related application material in paragraph A127 could lead to the auditor to assume the responsibilities of management, or otherwise raise concerns about the auditor's independence. 	<p>See paragraph 17G of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - It was never the Task Force's intention for the auditor to assume the responsibilities of management. This requirement originates from extant ISA 540 (paragraph 16). By including it under the testing strategy to test how management made the accounting estimate and providing additional application material, the Task Force is of the view that the concerns can be addressed.
<p>Paragraph 20 (The Auditor's Range)</p>		
<ul style="list-style-type: none"> - General support for paragraph 20 of ED-540, along with the related application material 	<p>See paragraph 18C of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force retained paragraph 20 of ED-540 and included it in the section that discusses the objectives-based requirements relating to the testing approach of developing an auditor's point estimate or range (see paragraph 18C). - As each section that addresses a testing strategy should stand on its own, the Task Force added that: <ul style="list-style-type: none"> • The auditor's range or point estimate should take into account the applicable financial reporting framework and the auditor's understanding of management's process to make the accounting estimate (paragraph 18). • When the auditor uses the auditor's own methods, assumptions or data, a requirement to obtain sufficient appropriate audit evidence about whether

		<p>the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework, and to consider the relevance and reliability of data obtained from an external information source (paragraph 18A).</p> <ul style="list-style-type: none"> When the auditor uses management's methods, assumptions or data to develop an auditor's point estimate or range, a reference back to the objectives-based requirements relating to testing how management made the accounting estimate (paragraph 18B).
<ul style="list-style-type: none"> Clarify that paragraph 20 applies in all instances when the auditor concludes that it is appropriate to develop an auditor's range. 	<p>See paragraph 18C of Agenda Item 2-B</p>	<ul style="list-style-type: none"> The Task Force has included this as a separate requirement (see paragraph 18C) that would apply whenever the auditor's further auditor procedures in accordance with paragraph 15 include the approach of developing an auditor's point estimate or range.
<p>Paragraph 21 (Disclosures)</p>		
<ul style="list-style-type: none"> General support for the enhanced disclosure requirement 	<p>See paragraph 21 of Agenda Item 2-B</p>	<ul style="list-style-type: none"> The Task Force made some changes to paragraph 21 of ED-540 to address comments received on this paragraph.
<p>Paragraph 22 (Stand-Back)</p>		
<ul style="list-style-type: none"> Many respondents, including one Monitoring Group member, noted support for the various provisions of the stand-back requirement in paragraph 22. However, these respondents were also of the view that: <ul style="list-style-type: none"> ED-540 should clarify whether the evaluation should be done at an individual estimate or 	<p>See Agenda Item 2-B</p>	<ul style="list-style-type: none"> Regarding the 'estimate' vs. 'estimates' issue, the Task Force has aligned with ISA 330, which focuses on responding to each assessed risk of material misstatement, and therefore would apply to each accounting estimate. The Task Force combined the sentence addressing corroborative or contradictory evidence with the sentence addressing the consequences of an inability to obtain sufficient appropriate audit evidence to give them greater prominence (see paragraph 22A of Agenda Item 2-B)

<p>overall level;</p> <ul style="list-style-type: none"> • A more explicit requirement to consider ISA 705 (Revised) in situations where the auditor is unable to obtain sufficient appropriate audit evidence should be included after paragraph 23. 		
<p>Paragraph 23 (Misstatements)</p>		
<ul style="list-style-type: none"> - Many respondents thought that paragraph 23 and the related application material will lead to a more consistent determination of a misstatement, but a few were opposed as they believe that the determination of materiality is open to interpretation and has not been sufficiently considered within ED-540, particularly for those misstatements that represent judgmental differences rather than factual misstatements - Concerns about whether the requirement and application material dealt appropriately with disclosures. 	<p>See Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force agrees with respondents who supported paragraph 23. The Task Force considered, but rejected, making paragraph 23 apply to individual estimates as, for example, it would be impractical for an auditor to have to determine separately the misstatement on each loan in a portfolio, and requiring this level of detail would not be in the public interest. - The Task Force supported inclusion of essential application material in the requirement to direct the auditor to ISA 450.

Paragraph 24 (Indicators of Possible Management Bias)		
- Move the requirement to identify indicators of potential management bias before the stand back requirement.	See paragraph 21A of Agenda Item 2-B	- The Task Force moved the paragraph that requires the auditor to evaluate whether there are indicators of possible management bias before the stand back requirement.
- The term potential bias is too broad and there needs to be a qualifier to evaluate potential bias.		- The Task Force is of the view that a qualifier is not needed as it could limit the identification of indicators of management bias.
Paragraph 25 (Written Representations)		
- General support for the enhancements to paragraph 25	See paragraph 25 of Agenda Item 2-B	- The Task Force made some changes to paragraph 25 of ED-540 to address comments received on this paragraph.
- Refer to 'data and assumptions' instead of 'significant data and significant assumptions'.	See paragraph 25 of Agenda Item 2-B	- The Task Force deleted the word 'significant' before data and assumptions as the Task Force agrees with the view that all data and assumptions are important when obtaining written representations from management. The Task Force also agreed with respondents who noted that management may not understand significant data as this term may not be defined under the applicable financial reporting framework.
- Remove reference to 'reasonable' as it is more appropriate for management representations to address whether the relevant requirements of the applicable financial reporting framework have been appropriately applied in the preparation of the accounting estimates and the related	See paragraph 25 of Agenda Item 2-B	- The Task Force replaced 'reasonable in the context of the applicable financial reporting framework' with 'in accordance with the applicable financial reporting framework.' However, management representations would still address whether they believe the methods, assumptions and data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

disclosures.		
Paragraph 26 (Communication with Those Charged with Governance)		
- Support for including a requirement on communication with those charged with governance.	See paragraph 26 of Agenda Item 2-B	- The Task Force aligned the wording in paragraph 26 of ED-540 with the revised wording in paragraph 13 of Agenda Item 2-B relating to the risk factors.
Paragraph 27 (Documentation)		
- Clarify the expectations for documentation on the risk assessment procedures, the reasons for the assessed risk of material misstatement, the response to the assessed risk of material misstatement, the stand back, and the auditor's consideration of management bias.	See paragraph 27 of Agenda Item 2-B	- The Task Force aligned the documentation requirement with changes made to paragraph 23 and discussed suggestions received by respondents. Several respondents provided suggestions to enhance paragraph 27, including with respect to broadening the requirement, but there was no consensus on what should be changed. As a result, the Task Force proposes the following: <ul style="list-style-type: none"> • A conforming amendment to paragraph A10 of ISA 230,⁹ which provides examples of matters and judgments that are significant and for which audit documentation is appropriate relating to the use of professional judgment. As a result, the third sentence of paragraph A138 would be deleted. • Put more emphasis in the application material to paragraph 27 on what documentation might be useful for complex estimates. • In response to a comment from a Monitoring Group member, consider whether the auditor should be required to document the basis for not using an expert with specialized skills and knowledge when inherent risk is higher on the spectrum of risk.

⁹ ISA 230, *Audit Documentation*

ISA 500, Audit Evidence		
General		
<ul style="list-style-type: none"> - Some support for relocating content to ISA 540, and/or better linkage from ISA 540 to the new material in ISA 500. 	<p>See paragraph 17E and 17F of Agenda Item 2-B</p>	<ul style="list-style-type: none"> - The Task Force continues to believe that content should be located in ISA 500 rather than ISA 540, and received Board support for that view at the October meeting. - The Task Force has also reinforced the links between ISA 540 and ISA 500 with the additions of paragraphs 17E and 17F in ISA 540 (see Agenda Item 2-B).
Definition		
<ul style="list-style-type: none"> - Many respondents called for the reference to "publicly available information" in the definition of an External Information Source (EIS) to be clarified as it risked misinterpretation. There were also calls for the application material explaining the distinction between an EIS and a management's expert to be clarified. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has redrafted the definition and related application material to remove reference to information being "publicly available" and instead has focused on the information being suitable for a broad range of users. In addition, service organization was added to the definition to remove these sources from scope to avoid confusion with those services for which ISA 402 applies.¹⁰ - Changes were also made to the application material to try and better explain considerations, and provide examples, in distinguishing an EIS and management's expert.
Paragraph 7 (Relevance and Reliability of Audit Evidence)		
<ul style="list-style-type: none"> - Remove the circularity between the definition of audit evidence and paragraph 7. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force debated the relationship between the definition of audit evidence and paragraph 7 and is of the view that, although an external information source is captured by the broad definition of audit evidence, the emphasis given to external information sources in paragraph 7 is warranted given the growing importance of evaluating those sources.

¹⁰ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<ul style="list-style-type: none"> - Greater prominence needs to be given to consideration of completeness and accuracy of information from an EIS. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force concluded that consideration of accuracy and completeness is a subset of considering relevance and reliability (more accurately, a subset of considering reliability). - Extant ISA 500 makes no mention of completeness and accuracy in the section related to reliability in general and only discusses these assertions in relation to information produced by the entity (paragraphs A49-A51 in support of paragraph 9). - Nevertheless, the Task Force believes it is appropriate to emphasize consideration of completeness and accuracy and has made additions to paragraphs A33A and A33B.
<ul style="list-style-type: none"> - Support for emphasizing the linkage between the degree of estimation uncertainty and the extent of work effort required to consider relevance and reliability. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force will give further consideration to potential application material in support of proposed new requirement 17E in ISA 540 to address this point, as this may be better located in ISA 540 given the specific link to estimation uncertainty. - However, the additional examples in paragraph A33Fa of ISA 500 also provide some additional guidance.
<ul style="list-style-type: none"> - Provide further explanation of why and when different approaches to considering an EIS are likely to be necessary. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has added additional examples in paragraph A33Fa of ISA 500.
<ul style="list-style-type: none"> - Provide guidance when there are divergent market views related to an input. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has made reference to such a situation in paragraph A33Fa of ISA 500. - Additional consideration will be given to whether application material in support of proposed new requirement 17E in ISA 540 is needed to address how management selected the information to use when there are divergent market views, and also draw out consideration of the extent to which the divergence in market views reflects estimation uncertainty that should be understood and addressed appropriately by management.

<ul style="list-style-type: none"> - Request for more specific guidance in relation to models. For example, the Basel committee requested that when a third-party model is used, auditors should assess the model methodology (including theoretical soundness and mathematical integrity), the appropriateness of model inputs (e.g., data and assumptions), and validation procedures and controls over the model). 		<ul style="list-style-type: none"> - The Task Force believes that such level of specificity in ISA 500 is perhaps unwarranted. Further consideration will be given as to whether any model-specific application material is warranted in support of paragraphs 17B(d) or 17E of ISA 540, to explain relevant considerations when a third-party model is used. For example, guidance could be included that a third-party model should be treated as if it was created by management and hence the same procedures would apply (subject to access to available information about the model). Any new application material would be linked back to ISA 500 on limitations on access to such information from an external information source.
<ul style="list-style-type: none"> - Request to clarify that extant application material in ISA 500 applies to both internal and external information used by the entity (and vice versa – should any of the new application material also apply to internally generated information). 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has made minor amendments to paragraphs A1 and A26 which clarify that the general application material on relevance and reliability applies to both internal and external information sources. - The Task Force believes that the new content on external information sources is too specific to consider making some of it applicable to internal sources. Therefore, no further changes have been proposed to make this applicable to any source of information.
<ul style="list-style-type: none"> - Support for enhancing guidance on implications of restricted access to an EIS's information, or proprietary models, including the likely limitation on scope that results. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has added paragraph A33Ga and reordered the application material such that the logical flow is improved.
<ul style="list-style-type: none"> - Request to make clear that the guidance applies equally to an auditor's use of an EIS as it does to considerations relating to management's use of an EIS. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has amended paragraphs A26 and, specifically, A33Aa to seek to clarify application.

<ul style="list-style-type: none"> - Request to clarify the implications when there is only one source of information (and hence the auditor can only consider that source alone) - A number of people commented that paragraph A33H was unclear as to its intent in referring to management and the auditor using the same source. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The auditor's consideration of the relevance and reliability of an EIS does not have to involve looking to alternative information sources – paragraph A33F makes this clear. - The Task Force has redrafted the paragraph to try and clarify the potential implications for the auditor, linking back to circumstances described in earlier application paragraphs.
<ul style="list-style-type: none"> - Calls for the application material to be more streamlined to reduce complexity and volume. 	<p>See Agenda Item 2-D</p>	<ul style="list-style-type: none"> - The Task Force has redrafted several paragraphs to try and clarify the intent in respect of a number of issues described above and has reordered content to improve the flow and readability. In order to provide the additional examples respondents called for, additional application material has been provided, which has inevitably increased overall volume.