

Inventory of ED 540 Application Material (AM) – Strategy for Restructuring

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1. This agenda item shows the analysis of the application material performed to date and the working strategies developed for that application material. As described in **Agenda Item 2**, the objective of this analysis was to identify application material paragraphs that could potentially be restructured, redrafted, relocated or deleted for different reasons. The review has been performed so far for the application material to paragraphs 10, 13, 19 and 20.
2. The Task Force identified the following categories:
 - A. Content is Duplicated with other material:
 1. Duplication of material in another ISA
 2. Duplication of material in ED 540
 - B. Drafting lacks Clarity
 - C. Content is Educational in Style (see Slide 2)
 1. Definitional with respect to terms used in ED 540
 2. Could be recast in the form of guidance as to what the auditor could, or would be expected to, do in relation to the subject matter, in applying the requirements or otherwise be moved to an appendix
 - D. Content is Fair Value specific
 - E. Content may be Questionable (potentially inconsistent or conceptually unsound)
 - F. Volume of AM is Unbalanced (disproportionate by reference to other topics)
 - G. Content Could be Merged
 - H. Content Could be Relocated
3. In the table below the first, second and third column show respectively the requirement from the Exposure Draft of proposed ISA 540 (Revised) (ED-540),¹ the related application material and a short description of the application material. The fourth column includes:
 - The category as described in paragraph 2 in green
 - A possible strategy to restructure in blue; and
 - Other Comments in orange.

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

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Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
Introduction			
1	None		Since this para provides a link to other ISAs, do we need to respond to comments from respondents about alignment to other ISAs with some AM here? e.g., could link to 450 (evaluation of misstatements)
Nature of accounting estimates			
2	A1, App1, App2	A1 – Examples of situations where estimates may be required	Should all the examples be at the same level? E.g., depreciation method v financial instruments.
		App 1 – Explanation of range of different types of measurement bases	
		App2 – Explanation of the factors that may be indicators of RoMM	
Key concepts of this ISA			
4-5	None		Paragraph 4 identifies that the “reasons for the assessment” of a RoMM may include the QIRFs – there is potential to explain this in related AM; paragraph 5 refers to professional skepticism

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Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
6	A2-A3	A2 - Explanation of the term 'reasonable'	First sentences application material is repetitive of the requirement and the objective
		A3 - Explanation of the term 'appropriate'	
Effective Date			
7			
Objective			
8			
Definitions			
9(a) Accounting estimate	A4	A4 - Expands on definition.	
9(b) Auditor's point estimate or range	A5	A5 - Description of that a point estimate or range might be developed for an AE as a whole or for a 'component' of an AE (e.g. for amounts used for data or assumptions)	
9(c) Estimation uncertainty	A6	A6 - Expands on definition and cross refers to App 2.	

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Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
9(d) Management bias	A7	A7 - Discusses relationship of bias with the need for judgment. Highlights bias may be difficult to detect at account level.	
9(f) Outcome of an accounting estimate	A8	A8 - Explains that some estimates may not have an outcome relevant for the audit.	AM does not address fact that an assumption could have an outcome – the focus of the AM is on the outcome of an AE as a whole
Requirements			
Risk assessment procedures and related activities			
10	A9-A60		<p>F (Nearly a third of the AM in the standard relates to this requirement)</p> <p>Detailed strategies for significantly restructuring this material are set out below.</p>
	A9-A10	A9 – Matters the auditor’s understanding needs to be sufficient for.	<p>A.1 / C (Partly educational explaining the standards)</p> <p>Footnote paragraphs 3, 5-6 and 11-12 of ISA 315 in the requirement and delete A9</p> <p>re A9, note that ISA 315 TF is considering ‘sufficient and appropriate’</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A10 – Guidance relevant to smaller entities and entities with simple business processes	<p>A.1 / G (Two elements repeat extracts from ISA 315 / remainder smaller entity considerations but not flagged)</p> <p>Footnotes can be used to reduce the repetition and suggest merge with other smaller entity consideration AM paras</p>
10(a) applicable financial reporting framework	A11-A13	A11 – Links to communication with management and those charged with governance.	<p>C.2 (Explains how understanding AFRF helps auditor)</p> <p>Recast as guidance on what auditor should seek to understand</p>
		A12 – Identifies that financial reporting frameworks may prescribe or provide guidance on the basis for selecting management’s point estimate.	<p>C.1 (Describes aspects of financial reporting frameworks)</p> <p>Consider incorporation in Appendix 1 or recast as guidance on what auditor should seek to understand</p>
		A13 – Identifies that Financial reporting frameworks may specify criteria for, or guidance on, disclosures.	<p>C.1 (Describes aspects of AFRFs)</p> <p>Consider incorporation in Appendix 1 or recast as guidance on what auditor should seek to understand</p>
10(b) regulatory factors	A14-A15	A14 – Identifies some matters the regulatory framework may assist the auditor in determining (e.g. conditions for recognition).	<p>C.2 / G / H (first two bullets could be relocated)</p> <p>Merge with para. A15 and clarify drafting and recast as guidance as to what the auditor should seek to understand</p> <p>Consider moving first two bullets to AM related to para. 10(a)</p>

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Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A15 – Identifies there may be inconsistencies between requirements of the regulatory framework and the applicable financial reporting framework.	<p>G / B (Message about the risk that arises is unclear but is related to the last bullet of para. A14)</p> <p>Merge with para. A14 and clarify drafting</p>
10(c) nature of accounting estimates and related disclosures	A16-A17	A16 – Guidance on how the auditor may obtain an understanding.	<p>A.1 (Repeats elements of understanding from ISA 315)</p> <p>Footnote the material repeated from ISA 315 in para. 10(c) and delete it</p> <p>Might want to align references to complexity etc. with the language about degree being built into paragraph 13</p>
		A17 – Identifies that developing an expectation may assist understanding which QIRFs are relevant.	<p>B / H (Beyond links to QIRFs, which could be clarified, there is little practical guidance on developing an expectation)</p> <p>Clarify how QIRFs help develop an expectation and consider whether it is supporting the appropriate requirement para.</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
<p>10(d) how management identifies the need for an accounting estimate</p>	<p>A18-A23</p>	<p>A18 – Brief description of what preparing financial statements requires management to do.</p>	<p>C.2 / A.2 (Describes what management does but not what auditor should seek to understand / some overlap with internal control para 10(f))</p> <p>In general, more integration of paras. 10(d), 10(e) and 10(f) might enable less overlaps and more integration of AM to para.10. Also recast as guidance on what auditor should seek to understand.</p> <p>A21 addresses an area where management bias (unintentional or intentional) could arise and this could be drawn out here</p>
		<p>A19 – Examples of matters that management's identification is likely to be based on.</p>	<p>C.2 (In part, ditto re para. A18)</p> <p>Recast as guidance on what auditor should seek to understand</p>
		<p>A20 – Identifies that the auditors understanding assists in identifying circumstances giving rise to the need for estimates or changes thereto.</p>	<p>B / G (Unclear how auditor identifies circumstances or changes therein / related to para. A21)</p> <p>Clarify basis for auditor's identification of circumstances/changes and merge into residue of para. A21</p>
		<p>A21 – Examples of matters the auditor may inquire about re changes in circumstances.</p>	<p>A.2 / G / H (Overlaps of first and second bullets with fourth bullet / related to A20 and A47 / and could be relocated to A47 with cross reference)</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
			Eliminate duplication, merge para. A21 content into para. A47, merge A20 revised into A21 and cross refer from A21 to A47
		A22 – Identifies that the auditor may identify a need for an estimate that management did not. (x-ref to 315)	<p>E / A.1 (The second sentence is only relevant to what is in the first if management failed to recognize the need for an estimate and failed to recognize a RoMM as a result / second sentence repeats what is in ISA 315)</p> <p>Redraft to align circumstances in first sentence to those in the second sentence – consider footnote references to reduce duplication</p>
		A23 – Considerations specific to smaller entities.	<p>A.2 / G (A lot of duplication with other AM paras for smaller entity considerations and could be merged)</p> <p>Merge with smaller entity material in para. A10 and with similar paras. A23, A44 and A60, to create a single para of this type for para. 10 and to eliminate duplication</p>
10(e) how management makes accounting estimates	A24-A25	A24 – Examples of financial reporting processes for making estimates.	<p>C.2 / G / E (Describes management process not what auditor should understand / could be merged with AM to para. 10(f) / refers to models as being “included” in methods whereas by definition a model is a tool to <u>apply</u> a method)</p> <p>See also strategy for para. A18. Merge and recast as guidance as to what the auditor should seek to understand. Amend wording to avoid the inconsistency with the definition of a model</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A25 – Examples of matters the auditor may consider in obtaining an understanding.	<p>B (Does not make clear the significance of the matter in the first bullet)</p> <p>Clarify first bullet</p>
10(e)(i) methods	A26-A31	A26 – Explanation of 'method' as a measurement technique. May be prescribed by AFRF.	<p>C.1 / B (The first part of this paragraph is definitional and the remainder provides contextual information that is expressed in a complex manner)</p> <p>Consider recasting first sentence as a definition and moving to para. 9, and clarify the remainder as supporting AM</p>
		A27 – Black Scholes identified as one example of method.	<p>C.1 / G (Provides an example illustrating the definition of a method / could be merged with the other contextual material for the definition of a method in A26)</p> <p>Consider merging with the remainder of A26</p>
		A28 – Explanation of model as a tool to make AE as specified by the method.	<p>C.1 / H (Definitional of a model)</p> <p>Consider recasting as a definition and moving to para. 9</p>
		A29 – Examples of factors that make a model complex.	<p>C.1 / H / A.2 (Definitional of a complex model / some overlap in bullets / not always clearly linked to data, method and assumptions)</p> <p>Consider if this is intended to be a definition. If so, recast as a definition and move to para. 9. If not, clarify that the bullets are not comprehensive and show a clearer link to complexity in data, methods and assumptions</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
			A29 is quite definitive “A model is complex when ...”
		A30 – Examples of factors to consider in obtaining an understanding of a model and related control activities.	<p>H (Deals with control activities relating to models and could be AM to understanding control activities)</p> <p>Consider relocation to support para. 10(f)</p> <p>Are there examples of models other than banks and insurers that could be included?</p>
		A31 – Example of when an estimate may have greater susceptibility to material misstatement relating to use of models.	<p>E / H (Talks about greater susceptibility to misstatement when models are used. Susceptibility to misstatement is inherent risk. Use of models affects control risk but does not affect inherent risk.)</p> <p>Rephrase A31 to avoid the inconsistency with definitions of inherent and control risk. Consider if the paragraph should be relocated to support the risk assessment requirement para. 13, with respect to control risk assessment – consider paras. A79-A82?</p> <p>It is notable that there is very little discussion of control risk in the application material to this standard and may on reflection be a significant imbalance that needs to be addressed.</p>
10(e)(ii) assumptions	A32-A38	A32 – Explanation of 'assumptions'.	<p>C.1 (Definitional of the term assumptions)</p> <p>Consider if this should be a definition and if so recast accordingly and move definitional elements to para. 9. If not a definition, as such, consider if it is sufficient to clarify</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
			when something is an assumption rather than an item of data – data may support assumptions but may also be used directly in making an estimate.
		A33 – Examples of matters the auditor may obtain an understanding of.	<p>A.2 / C.1 (Some bullets repetitive of the requirement para. 10(e)(ii) / last part of the paragraph is definitional in nature)</p> <p>Remove the bullets that simply repeat what is in the requirement. The fourth bullet should be reconsidered as it is not styled as understanding how management addresses assumptions but rather as evaluating their consistency – need to consider if this bullet should be relocated to support the work effort.</p>
		A34 – Explanation of how assumptions vary in terms of sources of data and whose judgments are reflected in them, with respect to fair value estimates.	<p>C.2 / D (Describes aspects of nature of assumptions specifically in the context of making FV estimates)</p> <p>Recast as guidance on what auditor should seek to understand and consider whether the guidance is solely relevant to FV estimates (if not it should also be expressed in more general terms).</p> <p>Also need to consider (a) whether it is only FV estimates that have special AM and, if so, (b) whether this should be moved to a separate area of the AM or to an Appendix – also applies to paras. A34, A36, A37 and A38.</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A35 – Explanation of 'significant data' and 'significant assumptions'.	<p>C.1 / B (Definitional of significant assumptions and significant data, with some contextual examples / definition example lacks some clarity)</p> <p>Consider recasting first sentence as a definition and moving to para. 9, and clarify the remainder as supporting AM. Consider whether the example can contrast significant and non-significant data or assumptions.</p> <p>Need to elevate the explanation of significant data and significant assumptions to a definition(s), consider whether the concept of significant data should be retained and if so how to explain it better.</p>
		A36– Guidance on inactive or illiquid markets.	<p>C.2 / D / H (Describes illiquid market conditions / is fair value specific and could possibly be relocated to be AM to the work effort paras.)</p> <p>Consider (a) recasting it as guidance as to what the auditor should seek to understand or (b) recasting it as guidance as to what the auditor needs to obtain audit evidence about, (c) merging it with para A38 and (d) relocating it. See also last paragraph of proposed considerations for para. A34.</p>
		A37 – Guidance on inactive or illiquid markets.	<p>C.2 / D / H (Describes illiquid market conditions / is fair value specific and could possibly be relocated to be AM to the work effort paras.)</p> <p>Consider (a) recasting it as guidance as to what the auditor should seek to understand or (b) recasting it as</p>

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			<p>guidance as to what the auditor needs to obtain audit evidence about, (c) merging it with para A38 and (d) relocating it. See also last paragraph of proposed considerations for para. A34.</p>
	A39-A42	A39 – Explanation of 'factual data' and 'derived data' and examples of data.	<p>C.1 / C.2 / G (Is partly definitional / the rest is educational in style and could be restyled and merged with paras. A40-A41)</p> <p>Consider whether data, factual and derived, should be defined. If so restyle part as definition(s) and move to para. 9. Merge remainder with paras. A40-A41 and restyle as guidance as to what the auditor should seek to understand.</p>
		A40 – Examples of sources of data.	<p>C.2 / G (Is educational in style and could be restyled and merged with paras. A39 and A41)</p> <p>See proposed strategy for para. A39</p>
		A41 – Examples of matters to consider in obtaining an understanding of data.	<p>G (Could be merged with A39-A40)</p> <p>See proposed strategy for para. A39</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A42 – Identifies that large volumes of data or complex controls may require general IT controls, and examples of risks that may be addressed.	<p>A.2 / G (Significant overlap with AM on controls over complex modelling in A30 / could be merged)</p> <p>Consider whether to merge this with A30</p>
10(e)(iv) management's application of specialized skill or knowledge	A43-A44	A43 – Examples of why management might need to employ or engage experts.	<p>C.2 (Educational in style)</p> <p>Recast as guidance as to what the auditor should seek to understand.</p> <p>In contrast to A31, A43 correctly recognizes that when resources available do not have the right skills and knowledge, this increases control risk.</p>
		A44 – Considerations specific to smaller entities	<p>A.2 / G (A lot of duplication with other AM paras for smaller entity considerations and could be merged)</p> <p>Merge with smaller entity material in para. A10 and with similar paras. A10, A23 and A60, to create a single para of this type for para. 10 and to eliminate duplication</p>
10(e)(v) risk of management bias	A45	A45 - Examples of matters the auditor may consider in obtaining an understanding of how management addresses the risk of management bias.	
10(e)(vi) estimation uncertainty	A46	A46 - Examples of matters the auditor may consider in obtaining an understanding of whether, and if so, how management has addressed estimation uncertainty.	<p>Consider the need to elevate this material to the requirements so that the requirements are clearer and this material does not need to be repeated in AM</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
10(e)(vii) changes in methods, data or assumptions	A47	A47 - Discussion of some matters relevant to the importance of understanding changes.	<p>A.2 / G (First sentence duplicative of requirement / could be merged with other AM relating to 'change')</p> <p>Recast remainder as guidance as to what the auditor should seek to understand. Link it to understanding management's process.</p> <p>Should there be a link in this para. to the "change" factor identified in paragraph A78</p>
10(f) components of internal control	A48-A60	A48 – A60 – guidance on components of internal control	As indicated above, integrating paragraphs 10 (d), 10(e) and 10(f) would enable greater integration of the AM in these paragraphs with other similar material related to understanding the entity's system of internal control relevant to accounting estimates.
		A48 – x-ref to 315	<p>A.2 (Already covered in requirement 10(f))</p> <p>Delete</p>
		A49 – Some examples of when it will be important to understand the design and implementation of relevant controls, and test their operating effectiveness.	<p>A.2 / C.2 / H (educational in style / explains circumstances where controls are more likely to be relevant to the audit and testing their operating effectiveness is more likely to be appropriate / could be relocated to AM to support para. 16)</p> <p>Recast as guidance on what the auditor could or should be expected to do and relocate as AM to para. 16</p>
		Control environment:	A.1 (Repeats a requirement from ISA 315)

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		A50 – Examples of elements that influence RoMM.	Delete and footnote the ISA 315 requirement in the ED 540 requirement
		A51 – Explanation of use of term 'governance' in banking of or insurance.	<p>C.1 / E (definitional explanation / not clear that the term is used only to describe only the control environment in banking and insurance or also certain types of monitoring and validation type controls by compliance, risk management and similar functions (second line of defense))</p> <p>Reconsider and redraft the explanation as necessary</p>
		<p>Oversight by TCWG:</p> <p>A52 – Examples of matters that influence the control environment.</p>	<p>A.2 / C.1 / G (First two bullets overlap with A43 / educational in style / could merge first two bullets with A43)</p> <p>Recast as guidance as to what the auditor should seek to understand? Consider merging first two bullets with A43 if integration of requirements can support this (see also strategy re para. A18).</p>
		A53 – Examples of matters the auditor may obtain an understanding of.	<p>G (Could be merged with A52)</p> <p>Merge with A52</p>
		A54 – Examples of types of estimate that oversight may be particularly important for.	<p>C.2 (Educational in style)</p> <p>Recast as guidance as to what the auditor should seek to understand.</p>

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		<p>Entity's risk assessment process:</p> <p>A55 – Examples of matters the auditor obtains an understanding of.</p>	<p>A.1 / G (First part repeats an ISA 315 requirement / could be merged with other AM relating to the entity's risk assessment process and change, such as that supporting requirement para.10 (e)(vii))</p> <p>Delete first part and merge the remainder with other relevant AM relating to change</p>
		<p>Information systems:</p> <p>A56 – Examples of matters the auditor may obtain an understanding of.</p>	<p>G (Much of this material is closely related to, and sometimes duplicates, other guidance relating to control activities that is included in other parts of the AM to requirement para. 10)</p> <p>See also strategy for restructuring para. A18.</p> <p>Merge with other AM relating to control activities (see also strategy for paras. A30, A42 and A58) – much of this paragraph relates to control activities relating to IT.</p>
		<p>A57 – Identification that information systems relevant to financial reporting are an important source for the quantitative and qualitative disclosures.</p>	<p>C.2 (Educational in style)</p> <p>Recast as guidance as to what the auditor should seek to understand.</p>

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		<p>Control activities:</p> <p>A58 - Examples of matters the auditor may obtain an understanding of.</p>	<p>G (much of this material is closely related to, and sometimes duplicates, other guidance relating to control activities that is included in other parts of the AM to requirement para. 10)</p> <p>See also strategy for restructuring para. A18.</p> <p>Merge with other AM relating to control activities (see also strategy for paras. A30, A42 and A56)</p>
		<p>Monitoring:</p> <p>A59 - Examples of matters the work of an internal audit function may help the auditor obtain an understanding of.</p>	
		<p>A60 – Considerations specific to smaller entities</p>	<p>A.2 / G (A lot of duplication with other AM paras for smaller entity considerations and could be merged)</p> <p>Merge with smaller entity material in para. A10 and with similar paras. A23, A44 and A60, to create a single para of this type for para. 10 and to eliminate duplication.</p> <p>Consider whether such merged material should be part of a broader section on scalability of the standard that could be brought together into, for example, an Appendix.</p>
<p>11 reviewing outcomes or re-estimation</p>	<p>A61-A66</p>	<p>A61 – Explanation of how reviewing outcomes may assist the auditor.</p>	

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		<p>A62 – Explanation that review doesn't need to be restricted to prior periods.</p> <p>A63 – X-ref to 240</p> <p>A64 – Guidance on when more or less detailed reviews may be judged appropriate.</p> <p>A65 – Guidance relevant to fair value estimates and other estimates based on current conditions at the measurement date.</p> <p>A66 – Consideration of differences between the outcome and the amount recognized in the previous period's financial statements.</p>	
12 specialized skills or knowledge	A67-A70	<p>A67 – Indication that in some cases the auditor may determine that specialized skills or knowledge are required. X-ref to 220.</p> <p>A68 – Examples of matters that may affect the auditor's determination.</p> <p>A69 – Explanation that many estimates do not require specialized skills or knowledge; however, likely to be necessary for ECL in banks and insurers.</p>	

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		A70 – X-ref to 620 for when auditor does not have the specialized skills or knowledge.	
Identifying and assessing the risks of material misstatement			
13	A71-A78	A71 – Reiteration of para 13.	A2. – repeats paragraph 13 Could be deleted
		A72 – Examples of where there may be low IR.	
		A73 – Examples of where there may not be low IR	
		A74 – Examples of where the reasons for the assessment may result from one or more of the 3 QIRFs	
		A75 – Indication that the assessment may be informed by events after the date of the financial statements.	
		Significant risks: A76 – X-ref to 315	
		A77 – X-ref to 570	

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		<p>Other relevant factors: A78 – Explanation of other possible relevant factors.</p>	<p>C.1 / H – This is explanatory/definitional of the other factors and could be relocated to application material to one of the introductory paragraphs</p> <p>Relocate to AM to the sections on the nature of accounting estimates or key concepts</p>
13(a)(i) complexity from method	A79-A81	<p>A79 – Indication that methods vary and may be complex.</p>	<p>C.2 / G – Educational in Style relating to sources of complexity in methods</p> <p>Recast as matters that the auditor should seek to understand about the method in assessing the extent to which complexity in the method gives rise to and affects the risks of material misstatement</p> <p>Re potential to merge – see comments on A82</p>
		<p>A80 – Indication that complex methods are often applied using a complex model, and may involve specialized skills and knowledge.</p>	<p>C.2 / G – Educational in style as to features of models that may indicate complexity in a method</p> <p>Recast as matters that the auditor should seek to understand about a model in assessing the extent to which complexity in the method gives rise to and affects the risks of material misstatement</p> <p>Re potential to merge – see comments on A82</p>

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		A81 – Examples of estimates for which there may be complex models.	<p>C.2 / G – Educational in style (examples to support A80)</p> <p>Keep but could merge with or link more closely with A80 to show which specific points in A80 the examples in A81 illustrate (see alternate style of A81 which does, for data, what A80 and A81 do for models)</p> <p>Re potential to merge – see comments on A82</p>
13(a)(ii) complexity from data	A82	A82 - Examples of where data may contribute to RoMM related to complexity.	<p>C. 2 / G – Educational in style (examples of features of data that may indicate complexity in data)</p> <p>Recast as matters that the auditor should seek to understand about the data in assessing the extent to which complexity in the data gives rise to and affects the risks of material misstatement</p> <p>Also consider whether A79 to A82 could be merged to deal with complexity across methods and data in a holistic manner (see alternative approach in A83 for subjectivity/judgment)</p>

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13(b) judgment	A83-A85	A83 – Examples of circumstances where judgment may give rise to RoMM.	<p>C.2 / H – Educational in style as to factors (including indicators of management bias) that give rise to RoMMs when applying methods, and using data or assumptions, involving subjectivity/judgment</p> <p>Recast as factors that the auditor should seek to understand in identifying the extent to which subjectivity gives rise to RoMMs in making AEs</p>
		A84 – Examples of estimates subject to high judgment.	<p>C.2 / H – Educational in style (examples illustrating features of data, methods and assumptions that are subject to a high degree of judgment)</p> <p>Recast as matters that the auditor should seek to understand about the data, methods and assumptions in assessing the extent to which making the estimate is affected by subjectivity</p>
		A85 – Identifies that high judgement may increase susceptibility to management bias.	<p>C.2 / G / H – Educational in style as to how a high degree of subjectivity and judgment relates to susceptibility to management bias and how management bias can give rise to RoMMs / could be merged with part of A83, which also addresses management bias</p> <p>First sentence is explanatory and could be relocated as AM to the concept of the factors where they are first</p>

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			addressed in the introductory paragraphs of the ISA and cross referenced to App 2. Remainder is closely related to A83 and could be merged with it.
13(c) estimation uncertainty	A86-A93	A86 – Explanation that EU inherent and not in itself a misstatement.	<p>C.2 / H – Educational in style about the relationship between EU, misstatements and RoMM</p> <p>Could be relocated to be AM to introductory paragraphs of ISA where EU is first discussed and cross referenced to Appendix 2 or could be relocated before complexity and judgment.</p>
		A87 – Examples of where EU may arise.	<p>C.2 / G / H – Educational in style as to factors that give rise to EU</p> <p>Could be recast as AM as to factors the auditor needs to understand in identifying the sources, and assessing the degree, of EU associated with the accounting estimate.</p> <p>Could also be moved before complexity and judgment as EU is a higher order factor than those factors as now established.</p> <p>Could also be merged with A88 as they address a similar class of factors and have some overlaps</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A88 – Factors that may give RoMM related to EU.	<p>C.1 / G / H – Educational as to factors that give rise to EU</p> <p>Ditto A87</p>
		A89 – Explanation that a seemingly immaterial estimate may give rise to RoMM.	<p>C.2 – Educational in Style</p> <p>Could be recast as guidance as to what the auditor should do to assess risk when addressing one that is seemingly immaterial</p>
		A90 – Circumstances where EU is so high a reasonable estimate cannot be made.	<p>C.2 – Educational in Style</p> <p>Could be recast as guidance as to what the auditor should do to assess whether a reasonable estimate cannot be made and how to respond. In practice, this is (at least under IFRS) likely to be an extremely rare event (and may be covered by the true and fair override)</p>
		A91 – Examples of where EU may or may not be high	<p>C.2 / H – Educational in style (examples illustrating features of AEs that are subject to higher or lower degrees of EU)</p> <p>Recast as matters that the auditor should seek to understand about accounting estimates as a basis for</p>

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
			<p>their assessment of the degree to which making the estimate is subject to EU.</p> <p>Given that this is the more 'normal case' than A90, perhaps it should also be relocated before A90.</p>
		<p>A92 – Sensitivity analysis may demonstrate assumptions the estimate is sensitive to.</p>	<p>C.2 – Educational in Style as to what may result from performing sensitivity analysis</p> <p>Could be recast as guidance as to steps the auditor may take to understand the what the auditor should do to assess the degree to which the accounting estimate is subject to EU and to identify the most significant sources of EU through performing sensitivity analysis [or reviewing management's]</p>
		<p>A93 – EU may influence susceptibility to management bias. Reference to professional skepticism.</p>	<p>C.2 / H – Educational in style as to how a high degree of EU relates to susceptibility to management bias and the need to exercise professional skepticism</p> <p>Paragraph is explanatory and could be relocated as AM to the concept of the risk factors where they are first addressed in the introductory paragraphs of the ISA and cross referenced to App 2.</p>
<p>Responses to the assessed risks of</p>			

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
material misstatement			
14 specialized skills or knowledge	A67-A70	See above.	
		See above.	
		See above.	
		See above.	
15	A94-A95	A94 – X-ref to 330	
		A95 – X-ref to 200 re separate / combined assessments of inherent and control risk.	
15(a) low IR	A96	A96 - -X-ref to 330 re possible need to perform more procedures	
15(b) IR not low	A97	A97 - Explanation that when inherent risk is not low, this ISA does not specify the nature of the further audit procedures to be performed, but the procedures in 15(a) may assist.	Can remove if following proposed approach discussed at October IAASB meeting.
16 reliance on controls	A98-A100	A98 – Examples of factors that may indicate that substantive procedures alone may not provide sufficient appropriate audit evidence.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A99 – Indication law or regulation may require additional work on internal controls.	
		A100 – Consideration specific to smaller entities.	
<i>Complexity</i>			
17	A101-A104	A101 – identifying that when management uses a complex method auditor may need to consider appropriateness of the various components and possible alternatives.	
		Complex modelling: A102 – Indication that appropriateness of a complex model may depend on a number of factors.	
		A103 – Indication that nature and extent of audit procedures depends on source of complexity.	
		A104 – Examples of matters to consider in relation to models.	
17(c) understanding or interpreting date	A105	A105 - Examples of procedures when there are complex legal or contractual terms.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
17(d) integrity of significant data and significant assumptions	A106	A106 - Indication that it may be appropriate to compare data and assumptions with an external information source.	
<i>Judgment</i>			
18(a)(i) selection of method, data and assumptions	A107	A107 - High level indication of how evidence might be obtained.	
18(a)(ii) changes from previous periods	A108-A110	A108 – Identifying important to consider change in estimate, or method, from previous period.	
		A109 – Indication that management may evaluate alternatives, including by use of sensitivity analysis.	
		A110 – Considerations specific to smaller entities.	
18(b) management's intent and ability	A111	A111 - Examples of auditor's procedures to obtain evidence about management's intent and ability.	
18(c)(iii) model adjustments	A112	A112 - Likely importance of considering adjustments. Examples of methods that require adjustments.	
<i>Estimation uncertainty</i>			
19(a)(i) management's steps to understand	A113-A115	A113 – Matters management has to understand and address.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
and address uncertainty		A114 – Explaining importance of considering whether management has appropriately assessed EU rather than the manner in which done.	
		A115 – X-ref to A46.	
19(a)(ii) management's determination of point estimate and related disclosures of uncertainty	A116-A125	A116 – Important for management to determine that the estimation uncertainty has been properly depicted.	
		A117 – AFRF may specify the method that should be applied in selecting an amount from the reasonably possible measurement outcomes.	
		A118 – For example, what IFRS requires for fair value estimates.	
		A119 – Framework may not specify a particular selection method and judgment will be required.	
		A120 – Framework may require disclosures that describe the amount as an estimate and explain the nature and limitations of the process for making it.	
		A121 – Framework may require disclosures about significant accounting policies.	
		A122 – Framework also may include requirements to disclose significant or critical judgments.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A123 – Examples of matters that may be relevant in obtaining audit evidence about the reasonableness of management’s point estimate and related disclosures.	
		A124 – Disclosure of estimation uncertainty may not be reasonable in light of the circumstances, even when in accordance with the framework.	
		A125 – May be appropriate to encourage management to describe, in the notes to the financial statements, the circumstances relating to the estimation uncertainty. X-ref to 705 and 701.	
19(b) management has not properly understood or addressed uncertainty	A126-A134	A126 – Consider requesting management to consider alternative assumptions or to provide additional disclosure.	
		A127 – Auditor is required, to the extent possible, to develop a point estimate or a range to enable the auditor to evaluate the reasonableness of management’s point estimate and the related disclosures.	
		<p>Developing an auditor's point estimate or using an auditor's range:</p> <p>A128 – Indication that the auditor is designing and performing a substantive analytical procedure. X-ref to 520.</p>	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A129 – Indication approach may vary, and illustration of types of approach.	
		A130 – Factors on which the ability to develop a point estimate may depend.	
		A131 – Examples of how a point estimate or range may be developed.	
		A132 – Emphasis on importance of understanding data, assumptions and method used n=by management.	
		A133 – Identifying that the auditor may need to consider whether there is an indication of management bias.	
		A134 – Identifying that the auditor’s range for an accounting estimate may be multiples of materiality. Evaluation of disclosures important.	
Disclosures related to accounting estimates			
21	A135-A138	A135 – Statement that paragraph 21 applies regardless of whether the auditor is required to perform procedures under paragraph 19.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A136 – Examples of disclosures that may be required by the AFRF.	
		A137 – Examples of specific disclosures that may be required regarding uncertainties.	
		A138 – Considerations when it is a fair presentation framework. May need additional disclosures.	
22 overall evaluation	A139-A141	A139 – X-ref to 330 about audit being cumulative and iterative. Information may be identified that differs from the time of the risk assessment.	
		A140 – Example of such a circumstance.	
		A141 – Where the auditor may focus for estimates that have not been recognized.	
23 misstatements	A2, A142-A146	A2 – See above	
		A142 – X-ref to 450. Description of different types of misstatement.	
		A143 – X-refs to A113-A118. Explanation of when the auditor may conclude a management's point estimate is reasonable.	

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A144 – Considerations where management's range and the auditor's range vary.	
		A145 – Considerations where the auditor's point estimate or range does not support management's point estimate. Measurement of misstatement.	
		A146 – Explanation that evaluating sufficiency of evidence for estimates and disclosure included in the notes is essentially the same as for an estimate recognized in the financial statements.	
Indicators of possible management bias			
24	A147-A152	A147 – Examples of indicators of possible management bias.	
		A148 – Explanation that indicators do not constitute misstatement but may point to a misstatement.	
		A149 – Explanation that bias may be more difficult to detect at an account level.	
		A150 – Discussion of circumstances that may indicate bias.	
		A151 – Explanation that indicators of bias may affect whether risk assessment remains appropriate.	

ISA 540 — Inventory of ED 540 Application Material
IAASB Main Agenda (December 2017)

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A152 – X-ref to 240.	
Written representations			
25	A153-A154	A153 – X-ref to 580. Examples of representations that might be obtained in relation to estimates.	
		A154 – Representation that may be obtained about estimates not recognized or disclosed	
Communication with those charged with governance			
26	A155-A157	A155 – X-ref to 260. Examples of matters specific to estimates the auditor may consider communicating.	
		A156 – X-ref to 265. Examples of areas where significant deficiencies might be identified.	
		A157 – Identifying that the auditor may be permitted or required to communicate with regulators or prudential supervisors.	
Documentation			
27	A158-A159	A158 – X-ref to 230. Explanation of what professional judgments may include in the context of estimates.	

ISA 540 — Inventory of ED 540 Application Material
 IAASB Main Agenda (December 2017)

Host Paragraph	Related AM	What the AM covers (in brief)	Categorization Possible strategy to restructure Other Comments
		A159 – Explanation of how documenting indicators of possible management bias assists the auditor.	