



Summary of ISA 540 (Revised) and Conforming and Consequential Amendments to Other International Standards

IAASB

International Auditing
and Assurance
Standards Board

Project Timeline

Information gathering commenced
in January 2015

Information
Gathering

Project Proposal approved in
December 2015

Project
Proposal

Exposure
Draft

Exposure Draft approved in March
2017 and published in April 2017
for comment by August 1, 2017

Final
Standard

Final standard approved in June
2018 and released in October 2018

Effective Date

Effective for periods beginning on or
after December 15, 2019, early
adoption permitted and encouraged

Public Interest Issues Addressed

Evolving audit risks due to a more complex business environment

- Financial reporting frameworks require more complex accounting estimates with high estimation uncertainty
- Complex accounting estimates becoming more prevalent and a fundamental part of financial statements for some entities

Addressing audit quality and fostering improved exercise of professional skepticism

- Findings by audit inspectors raised significant concerns about audit quality for accounting estimates, and a need to address this by fostering a more independent and challenging skeptical mindset in auditors

Realizing public interest benefits through improved communication and transparency

- Two-way dialogue between the auditor and those charged with governance about complex accounting estimates and those with high estimation uncertainty or subjectivity
- Communication with regulators or prudential supervisors

Key Enhancements

- With respect to **external information sources**, conforming and consequential amendments to ISA 500
- New and enhanced **application material**
- Expanded **documentation** requirement
- Emphasized requirement when **communicating with those charged with governance**
- Enhanced requirements addressing **disclosures**
- Explicitly recognized **spectrum of inherent risk**
- Introduced concept of **inherent risk factors**
- Enhanced **risk assessment** procedures
- Required **separate assessment of inherent risk and control risk**
- Emphasized the importance of the auditor's decisions about **controls**
- Introduced **objectives-based work effort** requirements
- Enhanced the “**stand-back**” requirement



Professional Skepticism

How does ISA 540 (Revised) enhance the auditor's exercise of professional skepticism?

A requirement to design and **perform further audit procedures in a manner that is not biased** towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory

Requirement to “**stand back**” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence

Use of **stronger language** (“challenge”, “question” and “reconsider”) in application material to reinforce the importance of exercising professional skepticism

Focus on **management bias** in risk assessment (other inherent risk factors include misstatement due to management bias or fraud) and work effort

Scalability

How is ISA 540 (Revised) scalable?

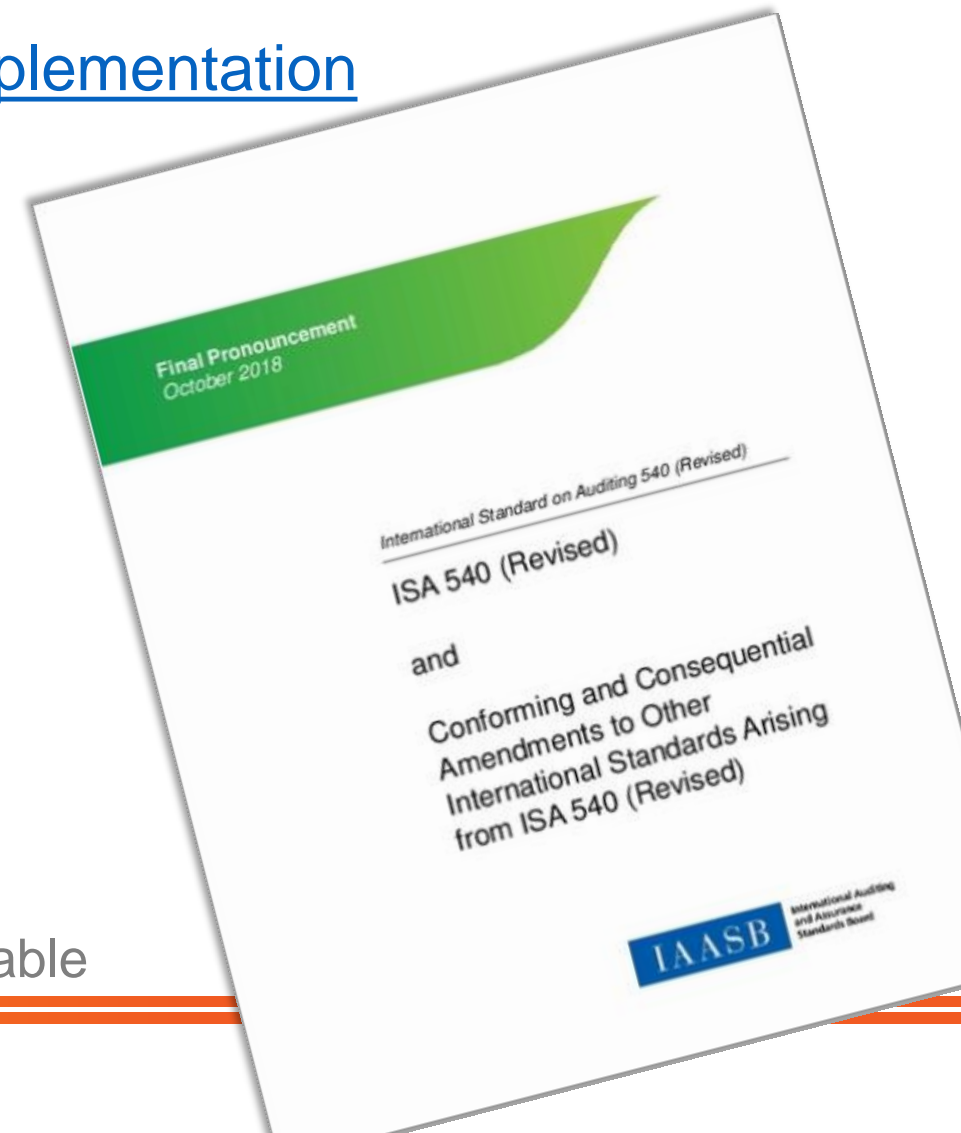
The standard emphasizes that the **nature, timing and extent of risk assessment and further audit procedures will vary** based on the assessment of the risks of material misstatement

The standard includes **specific paragraphs in the application material that demonstrate how ISA 540 (Revised) is scalable** in the risk assessment and the responses to the assessed risks of material misstatement

The standard emphasizes that **the auditor's further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement** at the assertion level and that the auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be

ISA 540 (Revised) Implementation Working Group

- **ISA 540 (Revised) implementation webpage:**
<http://www.iaasb.org/projects/isa-540-revised-implementation>
- **Available now**
 - Basis for Conclusions
 - 'At a Glance' publication
- **Coming in 2019**
 - An explanation of the range of different types of measurement bases
 - Flowcharts
 - Webcasts
 - Answers to FAQs
 - Illustrative examples on how the requirements are scalable





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