

Draft ISA 540 (Revised)¹—Conforming and Consequential Amendments—Issues and Recommendations

1. Introduction and Overview of Agenda Item

Objective of Agenda Item

The objective of this agenda item is to consider the Task Force proposed revisions to the draft conforming and consequential amendments arising from revision of ISA 540.

1. **Agenda Item 1-B** presents an update to Agenda Item 2-D (Updated),² as discussed by the Board during the Thursday session of the December 2017 IAASB meeting. Agenda Item 2-D (Updated) presented some initial proposed changes to the conforming and consequential amendments, prepared by the ISA 540 Drafting Team, arising from comments received during the Board's Monday session. The Task Force has now taken into consideration comments raised by Board members, both during the Monday and Thursday sessions of that meeting, and written comments received since then, and is proposing a number of further changes in response.
2. With respect to ISA 500 specifically, the Task Force has considered the comments received from some members that many of the proposed changes to ISA 500 were specific only to accounting estimates and would, consequently, be better located in ISA 540 (Revised). Having carefully considered each of the proposed new paragraphs in the standard, the Task Force is proposing that four paragraphs be relocated to ISA 540 (Revised) in support of the new requirement³ to consider, when relevant, information obtained from an external information source (EIS), as presented to the Board in the December 2017 draft of proposed ISA 540 (Revised). In response to comments received, a complete draft of ISA 500 has been included in **Agenda Item 1-B** to enable the proposed changes to be considered holistically in the context of the ISA taken as a whole. The Task Force does not believe that the additional application material relating to information from an EIS creates an imbalance in the application material to ISA 500 taken as a whole, noting that there would be five specific paragraphs addressing information to be used as audit evidence from an EIS, in support of paragraph 7, versus fifteen specific paragraphs addressing information produced by a management's expert, in support of paragraph 8.
3. The table below summarizes comments received and proposed changes, by each relevant ISA, including the change described above. Recognizing that **Agenda Item 1-B** presents changes marked from the extant standards, with separate comments on changes from the December 2017 Thursday "update" paper presented to the Board, a summary of the significant matters discussed, and tentative decisions thereon, from the December 2017 Monday session has also been included below, for completeness. There are no further changes being proposed, and hence no questions asked, in respect of ISA 580 or ISA 700 (Revised) from what was presented to the Board in December.

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

² www.iaasb.org/system/files/meetings/files/20171211-IAASB_Agenda_Item_2-D-Conforming_and_Consequential_Amendments-UPDATED.pdf

³ Draft ISA 540 (Revised), paragraph 18D

Discussion of Significant Comments and the Task Force's Proposed Changes

Significant Matters Arising from Board Comments	Paragraph Reference	Task Force Proposed Changes
ISA 200		
Deletion of content referring to separate and combined assessments of inherent and control risk cannot be made to ISA 200 as a conforming amendment arising from revision of ISA 540, but ISA 540 (Revised) can require a separate assessment of inherent and control risk for accounting estimates. This will need to be made as a conforming amendment in the ISA 315 revision project.	ISA 200 para A42	<p>In response to the Board decision, an additional sentence was instead proposed, at the December meeting, to paragraph A42 (as shown in the comment box in Agenda Item 1-B) to highlight the specific requirement of ISA 540 (Revised). This received support.</p> <p>The Task Force is proposing further consequential changes to ISA 200, anticipating a proposed change to paragraph 13 of ISA 540 (Revised), which will make more explicit that a separate assessment of inherent and control risk is required for accounting estimates. The proposed change to paragraph 13 of ISA 540 (Revised) will be discussed by the Task Force in its January physical meeting and will be presented to the Board in March 2018.</p> <p>The drafting of the consequential change to ISA 200 is as shown in Agenda Item 1-B is subject to agreement of the proposed change to paragraph 13 of ISA 540 (Revised).</p>
ISA 230		
Not Applicable.	ISA 230 para A10	Minor wording amendments only to replace the plural "accounting estimates" with the singular, to reflect that matters and judgements may be significant to individual estimates only.
ISA 260 (Revised)		
<p>The Board agreed that all illustrative matters that may be communicated to those charged with governance should be located in ISA 540 (Revised). Consequently, Appendix 2 to ISA 260 (Revised) was deleted.</p> <p>It was suggested that the proposed</p>	ISA 260 (Revised) para A20 and Appendix 2	<p>The Task Force will present a revised Appendix (3) to ISA 540 (Revised), addressing the matters that may be communicated, in March 2018.</p> <p>Minor edits to paragraph A20 to improve clarity, remove any implication of a need to determine the most suitable accounting</p>

Significant Matters Arising from Board Comments	Paragraph Reference	Task Force Proposed Changes
content of paragraph A20, referring to alternative acceptable accounting practices, implied a need to determine the most suitable and was not fully consistent with the requirement.		practice when there is a range of alternatives, and to refer to (new) Appendix 3 of ISA 540 (Revised).
ISA 500		
<p>Definition of an External Information Source</p> <p>The definition (and various aspects of application material) was clarified to recognize that an auditor may also independently obtain information from an external information source and to explicitly exclude from scope the work of a management's expert, auditor's expert or use by an entity of a service organization. It was further noted that, in doing so, the multiple clauses in the definition made it difficult to read.</p> <p>It was observed that the examples in paragraph A1Ca were all specific to accounting estimates and that a non-accounting estimate use of an external information source would be appropriate.</p>	ISA 500 para 5(cA) and A1A – A1Ca	<p>The Task Force has restructured the definition to try and remove some of the complexity caused by the multiple clauses. The intent is to make clear that an individual or organization is only an external information source when it is <i>“providing information...other than when acting in the capacity of a management's expert, service organization, or auditor's expert”</i>. The Task Force believes that moving the exclusions to a hanging paragraph improves the readability.</p> <p>Paragraphs A1A – A1B have been redrafted and reordered to improve clarity.</p> <p>Two additional examples of potential use of an external information source have been added, including one unrelated to developing an accounting estimate.</p>
<p>Requirement to consider relevance and reliability of information to be used as audit evidence</p> <p>It was noted that the application material to paragraph 7 seemed to go beyond a “consideration” level of work effort.</p>	ISA 500 para 7	<p>The Task Force remains comfortable with the proposed application material but will give further consideration to the points raised by the Board on the alignment of the application material with a requirement to “consider” the relevance and reliability of information from an external information source. In that context, the Task Force will discuss, in its January physical meeting, the consistency of the requirements addressing each of: information from an external information source (para 7), work of a management's expert (para 8) and information produced by the entity (para 9).</p>

Significant Matters Arising from Board Comments	Paragraph Reference	Task Force Proposed Changes
<p>Application Material</p> <p>As noted above, various changes were made to reflect that the application material needs to be capable of applying to both when management makes use of an external information source and when an auditor independently obtains information from such a source.</p> <p>Further comments specific to this point were received, for example, in respect of paragraph A33B.</p>	ISA 500 - various	The Task Force has conducted a further review of the application material and has made some further amendments to be satisfied that the content is appropriate regardless of whether it is management or the auditor making use of information from an external information source. For example, bullets within paragraph A33B and A33F have been clarified where the specific consideration would only apply to management's use.
Various comments were expressed as to the accounting estimate specificity of the content in several paragraphs and questioning whether this was best located in ISA 500 or ISA 540.	ISA 500 paras A1Ca and A33F-H	The Task Force has considered all application material. In the context in which it is given, the Task Force is comfortable with paragraph A1Ca but has, as noted above, added an additional non-accounting estimate related example. In respect of paragraphs A33F-A33H, the Task Force agrees that paragraphs A33Fa, A33G, A33C and A33D would be more appropriately located as application material to ISA 540 (Revised). This content will be relocated, updated as appropriate, given its new placement, and will be presented to the Board in March 2018.

Matters for IAASB Consideration

The IAASB is asked for its views on whether the conforming and consequential amendments, as presented in **Agenda Item 1-B**, are appropriate and complete, including the proposed changes to:

- 1) ISAs 200, 230 and 260 (Revised); and
- 2) ISA 500, including:
 - a) The revised definition of external information source (paragraph 5 (cA)) and related application material in paragraphs A1A-A1Ca;
 - b) The revised application material in paragraphs A26A and A33A-A33H; and
 - c) The proposed re-location to ISA 540 (Revised) of four specific application paragraphs (A33Fa, A33G, A33C and A33D).

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 with others relating to the ISA 540 project.

Task Force Activities since the last IAASB Discussion

2. The ISA 540 Drafting Team held one physical meeting and ISA 540 Task Force held one teleconference.

Outreach

3. The leadership of the ISA 540 Task Force met with representatives of the Basel Committee on Banking Supervision Accounting Experts Group Audit Sub-Group and held a teleconference with the American Institute of Certified Public Accountants Auditing Standards Board.