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**Proposed ISA 540 (Revised)<sup>1</sup>—Issues Paper****Objectives of Agenda Item**

The objectives of this agenda item are:

1. To approve ISA 540 (Revised) and to approve the conforming and consequential amendments to other ISAs.

**Section 1: Introduction and Overview of Agenda Items**

1. Since the March 2018 IAASB meeting, the ISA 540 Task Force (the Task Force) has focused on addressing the comments received from Board members (both during the meeting and offline) and continuing to look for ways to improve the readability and understandability of the standard. In doing so, a key objective has been to ensure that the substantive remaining issues raised by Board members were adequately redeliberated and addressed by the Task Force in preparation for Board approval. This issues paper explains how the Task Force has further considered and addressed the following key issues that are not addressed in the 'Discussion of Changes to the Requirements and Application Material' (**Agenda Item 2-A**):
  - Professional skepticism (Section 2);
  - Effective date (Section 3);
  - Other matters (Section 4);
  - Due process matters (Section 5); and
  - Implementation support activities (Section 6).
2. The Task Force has developed a series of additional papers to support the discussion at the June 2018 IAASB meeting. These papers are as follows:
  - Agenda Item 2-A: Discussion of Significant Changes to Requirements and Application Material;
  - Agenda Item 2-B: Draft of Proposed ISA 540 (Revised) – Marked from March 2018 IAASB Meeting/ April 2018 Teleconference;
  - Agenda Item 2-C: Draft of Proposed ISA 540 (Revised) – Clean;
  - Agenda Item 2-D.1: Draft Conforming and Consequential Amendments Arising from Draft Proposed ISA 540 (Revised) – Marked from March 2018 Meeting;
  - Agenda Item 2-D.2: Draft Conforming and Consequential Amendments Arising from Draft Proposed ISA 540 (Revised) – Marked from Extant;
  - Agenda Item 2-E: Draft Conforming and Consequential Amendments Arising from Draft Proposed ISA 540 (Revised) – Clean;
  - Agenda Item 2-F: Task Force Analysis of Due Process Related to Re-Exposure;
  - Agenda Item 2-G: Comparison of Current Draft of Proposed ISA 540 (Revised) with ED-540 – Requirements; and

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<sup>1</sup> Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Supplement to Agenda Item 2: Roadmap of Current Draft of Proposed ISA 540 (Revised) with ED-540 – Application Material.
3. The Task Force will discuss the agenda items in the following order:
- Draft of proposed ISA 540 (Revised) – the Task Force will use **Agenda Item 2-B** as the basis for the discussion and will discuss the requirements and related application material together, followed by the appendices.
  - Matter for IAASB Consideration #1 (Professional Skepticism – see section 2 of this agenda item).
  - Conforming and consequential amendments – the Task Force will use **Agenda Item 2-D.1** and section 4.1 of this agenda item as the basis for the discussion.
  - Matters for IAASB Consideration #2 and #3 (Effective Date – see section 3 of this agenda item).
  - Due process matters – see section 5.1 of this agenda item.

After the vote to approve ISA 540 (Revised), the Task Force will, as applicable, discuss the following agenda items:

- Re-exposure. The Task Force will discuss its analysis of the provisions of the due process related to whether an approved ISA needs to be re-exposed and its conclusion. See section 5.2 of this agenda item and **Agenda Item 2-F**.
  - Implementation support activities – see section 6 of this agenda item.
4. **Agenda Item 2-A** is intended to provide background information on the significant changes made by the Task Force, and the rationale for those changes, to the requirements and application material of proposed ISA 540 (Revised), and to the conforming and consequential amendments, from the March 2018 IAASB meeting or the selected paragraphs discussed on the April 24 IAASB teleconference. The Task Force will not specifically refer to this document during the discussion.

## Section 2: Professional Skepticism

5. Based on the analysis of comments to the Exposure Draft of ISA 540 (Revised) (ED-540), the Task Force noted that respondents generally believed that the approach taken in ED-540 appropriately reinforces the application of professional skepticism when auditing accounting estimates. (See Agenda Item 2-F.2 of the December 2017 meeting.) Several aspects of ED-540 were mentioned as key improvements in this regard, including the stand-back provision, which requires the auditor to consider all audit evidence obtained, whether corroborative or contradictory, when evaluating whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
6. The Task Force has continued to discuss ways to address specific comments received regarding the importance of the effective exercise of professional skepticism with respect to the auditor's evaluation of management's judgments relating to accounting estimates, particularly when those judgments are subjective and there is greater opportunity for management bias.

7. Since the March 2018 IAASB meeting, the Task Force has made the following changes to emphasize the importance of exercising professional skepticism:

- In several places in the application material, the Task Force has used stronger wording (i.e., question or challenge) to drive appropriate auditor behavior in the audit of accounting estimates, including the exercise of professional skepticism:
  - Retrospective review (Paragraph A59);
  - Significant assumptions (Paragraph A97);
  - Management bias (Paragraph A134); and
  - Overall evaluation based on audit procedures performed (A139 and A143A).

A further explanation of these changes is included in **Agenda Item 2-A**.

- The Task Force made further changes to the last sentence of paragraph 17 in response to comments from Board members. However, the Task Force has retained the original intent of the requirement, which was to include wording earlier in the requirements section that would be consistent with the stand back in paragraph 33 but would help to drive auditors to design and perform further audit procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative nor biased towards not obtaining audit evidence that may be contradictory. The Task Force added wording to the related application material (see paragraph A82) to explain that the auditor is not expected to conduct an exhaustive search to identify all possible sources of audit evidence.
- The Task Force also added paragraph A97, which emphasizes the need for professional skepticism when:
  - A change from prior periods in selecting a method, assumption or data is not based on new circumstances or new information; and
  - Significant assumptions are inconsistent with each other or with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities.
- The Task Force further enhanced paragraph A153, which explains how audit documentation can provide evidence of the auditor's exercise of professional skepticism.

#### **Matter for IAASB Consideration**

1. The IAASB is asked whether it supports the changes made to enhance the exercise of professional skepticism.

### **Section 3: Effective Date**

#### *Background*

8. ED-540 included the following question on the effective date (question 8 (b)):<sup>2</sup>

Recognizing that ED-540 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and

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<sup>2</sup> Question 8(a) asked for comment on potential translation issues.

encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Paragraphs 9-13 below set out the relevant views of the respondents as presented to the Board for the December 2017 meeting.<sup>3</sup>

9. A majority of respondents<sup>4</sup> were supportive of the proposed 18-month transition period from the date of approval of a final ISA. Of those respondents, some<sup>5</sup> noted that 18 months should be the minimum transition period, given the time needed for translation and due process in various jurisdictions, and that audit firms need to implement significant changes to their methodologies. Other respondents<sup>6</sup> indicated that the transition period should at least be 12 months after approval. A few respondents<sup>7</sup> suggested an effective date for financial reporting periods beginning two years after approval of the final ISA.
10. Some respondents<sup>8</sup> urged the IAASB to finalize the revision of ISA 540 as soon as possible given the impending mandatory effective date of IFRS 9<sup>9</sup> (annual periods beginning on or after January 1, 2018) and other standards (e.g., IFRS 15).<sup>10</sup>
11. Some respondents<sup>11</sup> stressed that it is important to provide a sufficient period to support the effective implementation of the revised standard.<sup>12</sup> A respondent<sup>13</sup> noted that additional time will be required to educate the business community, management and auditors with respect to management's and the auditor's responsibilities under the finalized proposals.
12. All respondents<sup>14</sup> that commented on early adoption agreed that early adoption should be permitted. Of these, several noted their support for early adoption in view of the effective date of IFRS 9.
13. One member of the Monitoring Group,<sup>15</sup> supported the proposed 18-month transition period from the date of approval of a final ISA, with earlier application to be permitted and encouraged, to provide a sufficient period to support the effective implementation of the revised standard. This member also believes that audit firms could and should be taking preliminary steps to ensure they can early apply the improved standard to their audits of accounting estimates. Other Monitoring Group members<sup>16</sup> did not comment specifically on the proposed effective date or

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<sup>3</sup> [http://www.iaasb.org/system/files/meetings/files/20171211-IAASB\\_Agenda\\_Item\\_2-F.5-Analysis\\_Question\\_8.pdf](http://www.iaasb.org/system/files/meetings/files/20171211-IAASB_Agenda_Item_2-F.5-Analysis_Question_8.pdf)

<sup>4</sup> *Regulators: IAIS, IRBA, NSSs: AUASB, CAASB, CNCC-CSOEC, IDW, MAASB, NBA, NZAuASB, Firms: BDO, DTT, GTI, KPMG, PKF, PWC, RSM, Public Sector: AGA, AGC, GAO, INTOSAI, PAS, Member Bodies: AE, CPAA, EFAA, FACPCE, IBRACON, IAA, ICAS, ICAZ, ISCA, ICPAK, SAICA, SMPC, Investors & Analysts: CFA, Individuals & Others: NDEG*

<sup>5</sup> *NSSs: IDW, Firms: KPMG, DTT, Member Bodies: SAICA, SMPC, Public Sector: INTOSAI*

<sup>6</sup> *Firms: EYG, Public Sector: ACAG, Member Bodies: ANAN*

<sup>7</sup> *Public Sector: INTOSAI, NSSs: IDW, Member Bodies: SMPC*

<sup>8</sup> *Regulators: BCBS, EBA, ESMA, IAIS, Firms: PKF, Member Bodies: ICAS*

<sup>9</sup> *International Financial Reporting Standard (IFRS) 9, Financial Instruments*

<sup>10</sup> *IFRS 15, Revenue from Contracts with Customers*

<sup>11</sup> *Regulators: EBA, ESMA, NSS: CNCC-CSOEC, Member Bodies: AE, ICAS*

<sup>12</sup> *Regulators: IRBA NSS: IDW, Public Sector: INTOSAI, Member Bodies: ICPAK*

<sup>13</sup> *NSS: AUASB*

<sup>14</sup> *Regulators: BCBS, EBA, ESMA, IAIS, UKFRC, NSSs: AUASB, CAASB, IDW, NBA, NZAuASB, Firms: DTT, EYG, GTI, KPMG, PKF, PWC, Member Bodies: FACPCE, ICAEW, ICAS, ICAZ, ICPAK, SAICA, Individuals & Others: NDEG*

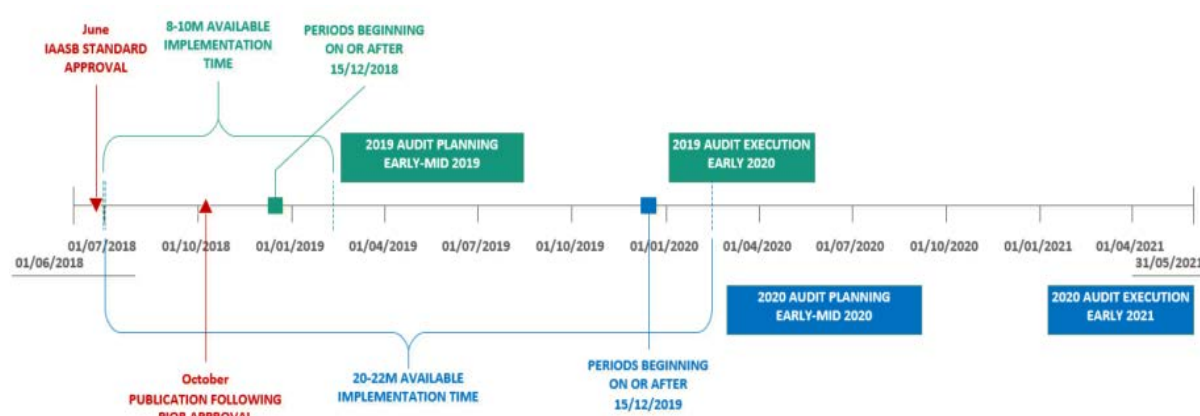
<sup>15</sup> *Regulators: IAIS*

<sup>16</sup> *Regulators: BCBS, IFIAR, IOSCO*

length of the transition period. However, one member<sup>17</sup> strongly encouraged the IAASB to finalize the standard expeditiously, with early adoption permitted, as it is important that auditors are able to apply the standard in the year that banks adopt an expected credit loss accounting framework.

### Task Force Discussions

14. The Task Force had mixed views about whether the revised standard should be effective for periods beginning on or after December 15, 2018 (as proposed in the ED) or December 15, 2019 (a year later than proposed in the ED).



15. On one hand, some members of the Task Force noted that an effective date for audits beginning on or after December 15, 2019 would be appropriate. These members noted that:

- As ISA 540 (Revised) would affect the planning of and risk assessments for an audit, the standard would often be implemented nearer the beginning of the period of the financial statements being audited (as opposed to an auditor reporting standard which can be implemented later). A December 2018 effective date would mean that firms and national auditing standard setters would effectively have eight to ten months for implementation of the standard before the commencement of planning for larger audit engagements in early 2019, rather than 18 months after approval of the final standard as proposed in the ED.
- Firms need time to update their methodologies and audit tools, develop training materials, and train their staff to reflect the changes made to ISA 540. Those members viewed this as insufficient due to the need to fully understand the implications for, and to develop and approve changes to, the firms' methodologies, tools, and training. They noted that it would be very challenging, in their experience, for larger firms but even more so for smaller firms (see below) and that most training for 2018 has already been developed. A short implementation time may also result in a rushed or ineffective implementation, which they believe may have the unintended (and undesired) effect of causing a higher level of negative audit inspection findings. These views are consistent with views expressed to the Task Force by audit firms in outreach to the Global Public Policy Committee prior to the March 2018 Board meeting.
- Smaller firms often rely on external providers of a “packaged” methodology. An effective date for audits beginning on or after December 15, 2018, would, in the view of those task force members, leave arguably insufficient time for the third party to develop such a package for 2019 audits. They argued that, generally, a third-party provider needs up to nine months to understand the changes and update the software and supporting materials.

<sup>17</sup> Regulators: BCBS

and that a June 2018 IAASB approval could leave too little time to get the software package ready before the planning of 2019 audits.

- Some national auditing standard setters need time to translate the standard (which may take anywhere from three to six months) and, in some cases, to develop supplemental implementation material based on the translated standard. In some cases, there may also be a need for public exposure of the standard before it will be effective in their jurisdiction. A short implementation time could lead to some jurisdictions implementing the standard on a deferred basis.
16. On the other hand, some members of the Task Force noted that an effective date for audits beginning on or after December 15, 2018 would be appropriate because these members noted that:
- Given the significant number of inspection findings related to accounting estimates,<sup>18</sup> it is in the public interest for the standard to be effective as soon as possible.
  - Financial institutions' regulators have been urging the IAASB to have a revised auditing standard on accounting estimates when IFRS 9 becomes effective. This was also one of the key reasons to expedite the revision of this standard and not develop audit considerations specific to financial institutions. Given that IFRS 9 has a mandatory effective date for annual periods beginning on or after 1 January 2018, having ISA 540 (Revised) be effective for periods beginning on or after December 15, 2018 would mean only a one year differential from the effective date of IFRS 9.
  - A majority of the respondents to ED-540 believed that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA by the IAASB. It was noted that a June 2018 IAASB approval would still give auditors 18 months after that approval, consistent with what was proposed in the ED.
  - In contrast to the views of members supporting an effective date of audit beginning on or after December 15, 2019, these Task Force members questioned why there was a difference between the views of the firms about the effective date between those expressed in their responses to ED-540 and the arguments that certain firms and the TF members supporting a 2019 effective date were making now.
17. The Task Force as a whole recognizes that, with a June 2018 approval by the IAASB, the earliest the final standard would be published would be October 2018, taking into account consideration of due process and approval by the Public Interest Oversight Board. Some may argue that this reduces the time available for implementation. However, the Task Force is unanimously of the view that stakeholders can and would in practice use the updated version of proposed ISA 540 (Revised), which will be published shortly after the June Board meeting, to begin preparations for implementation.
18. After extensive discussions about the effective date, the Task Force could not come to a consensus view as to what is appropriate, weighing the different public interest considerations. Some Task Force members are of the view that a rapid implementation is, on balance, in the public interest while others are of the view that, on balance, it is in the public interest for auditors to have more time to support an effective implementation.

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<sup>18</sup> [https://www.ifiar.org/activities/annual-inspection-findings-survey/index.php?wpdmdl=7970&ind=XDEJIUVfHwUTu2UZahT2C6iwyPjorgVMdkvQckkCICYvnlRf0BjUtGVTNLq\\_5eTqWagorxcU3q4O2982om6-FMt\\_MtYq3WTy\\_gUWhAOys02onhXK8tA9Zl2YX5L8akLM4-ggitpfY-nQ9N9P8lqNQ&#zoom=100](https://www.ifiar.org/activities/annual-inspection-findings-survey/index.php?wpdmdl=7970&ind=XDEJIUVfHwUTu2UZahT2C6iwyPjorgVMdkvQckkCICYvnlRf0BjUtGVTNLq_5eTqWagorxcU3q4O2982om6-FMt_MtYq3WTy_gUWhAOys02onhXK8tA9Zl2YX5L8akLM4-ggitpfY-nQ9N9P8lqNQ&#zoom=100)

19. The Task Force was of the view that, in either scenario, early adoption should be allowed and encouraged.

**Matter for IAASB Consideration**

2. The IAASB is asked for its views and a decision on the most appropriate effective date of ISA 540 (Revised), taking into account the public interest considerations identified.

*Phrasing of Effective Date*

20. The Task Force also separately discussed whether the effective date should be phrased ‘for periods beginning’ or ‘for periods ending’ on or after a particular date. As noted in paragraph 15 above, the requirements in ISA 540 (Revised) affect planning and risk assessments, and therefore such activities often take place nearer the beginning of the period of the financial statements being audited, in contrast to, for example, the auditor reporting standards. Therefore, the Task Force concluded that the effective date should be ‘for audits of financial statements for periods beginning on or after’ the chosen effective date. This is in line with other non-auditor reporting auditing standards and what was in paragraph 7 of ED-540.

**Matter for IAASB Consideration**

3. The IAASB is asked whether they agree with the Task Force conclusion that the final standard should be effective for audits of periods “beginning on or after” the chosen date.

## Section 4: Other Matters

### 4.1 Conforming and Consequential Amendments

21. The Task Force has considered the comments from the Board at the March 2018 meeting and written comments provided thereafter and has made further revisions to the conforming and consequential amendments to ISA 500<sup>19</sup> as presented to the Board in Agenda Item 2-F-Updated. Significant changes made by the Task Force are summarized in **Agenda Item 2-A**. The Task Force also made one change to Appendix 2 of ISA 260 (Revised)<sup>20</sup> to align wording with proposed Appendix 2 of ISA 540 (Revised). **Agenda Items 2-D.1, 2-D.2 and 2-E** (marked from March 2018 meeting, marked from extant and clean versions, respectively) include the details of the conforming and consequential amendments to ISA 500 and other ISAs.

### 4.2 Conforming and Consequential Amendments to ISA 540 (Revised) Arising from the ISA 315 Project

22. The IAASB broadly agreed to the proposed approach, as discussed on the May 2018 IAASB teleconference, of presenting and approving conforming and consequential amendments to the final ISA 540 (Revised) in July 2018 as a supplement to ED ISA 315 (Revised).<sup>21</sup> To facilitate this approach, the Board will be presented during the June IAASB meeting with an analysis of the nature and scope of these proposed amendments prior to the final vote on the approval of ISA 540 (Revised).

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<sup>19</sup> ISA 500, *Audit Evidence*

<sup>20</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>21</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

## Section 5: Due Process Matters

### 5.1 Significant Matters Identified by the Task Force

23. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its conclusions and recommendations thereon, have been reflected in the agenda material presented to the IAASB at its meetings. In the Task Force's view, there are no significant matters discussed in the course of this project that have not been brought to the IAASB's attention.

### 5.2 Consideration of the Need for Re-Exposure

24. The Task Force considered whether re-exposure is needed and believes, based on the draft that is presented to the Board for the June 2018 meeting, that it is not. **Agenda Item 2-F** presents the Task Force's analysis of the provisions of due process related to whether an approved ISA needs to be re-exposed and its conclusion, along with other background material that may assist the Board in coming to a view on re-exposure. **Agenda Item 2-G** shows a comparison of the requirements of ED-540 with the requirements in **Agenda Item 2-C**.

## Section 6: Implementation Support Activities

25. The Task Force notes that former Appendix 1 (Measurement Bases of Accounting Estimates) and proposed Appendix 4 presented to the IAASB in March 2018 (Examples to Illustrate Scalability), which were removed from the draft standard based on the IAASB discussion in March 2018, will be further considered in connection with the development of implementation support materials to be issued after ISA 540 (Revised) is approved. The Task Force is also developing a flow chart that shows how ISA 540 (Revised) relates to other ISAs such as ISA 315 (Revised), ISA 330,<sup>22</sup> ISA 450<sup>23</sup> and ISA 500.

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<sup>22</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>23</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*



## 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 stakeholders and coordination with other IAASB Task Forces and Working Groups relating to the ISA 540 project.

#### **Task Force Activities since the last IAASB Discussion**

2. The Task Force has held one physical meeting and four teleconference since the April 24, 2018 IAASB teleconference.
3. The leadership of the Task Force met once with the leadership of the ISA 315 Task Force since the April 24, 2018 IAASB teleconference.

#### **Outreach**

4. Since the April 24, 2018 Board teleconference the Task Force had one teleconference with representatives of the International Organization of Securities Commissions' Committee 1, Auditing Subcommittee. This teleconference formed part of the extensive outreach by the Task Force with key stakeholders around the March 2018 meeting. An overview of the outreach performed by the Task Force since the publication of ED-540 is included in Appendix B of **Agenda Item 2-G**.

## Draft Minutes of the March 2018 Board Meeting<sup>24</sup>

### 1. ISA 540 (Revised)<sup>25</sup>

Messrs. Sharko and Grabowski introduced the topic, noting that the ISA 540 Task Force has made changes to respond to comments from the IAASB on its proposals presented at the December 2017 IAASB meeting and from recent outreach events.

#### DRAFT ISA 540 (REVISED)

The Board discussed **Agenda Item 2-B**, and an updated version was presented later in the week, to respond to Board comments from earlier in the week. Although the Board supported many of the Task Force's proposals, Board members expressed some concerns and offered various suggestions, including:

- That the description of the key concepts needed to be clearer, and the description of the spectrum of inherent risk needed to be further aligned with the description in draft proposed ISA 315 (Revised).<sup>26</sup> The Board suggested reducing the application material that describes the spectrum of risk because it would be better placed in ISA 315 (Revised).
- A concern about the scope of the standard, which applies to almost all monetary items in the financial statements, and the potential resulting impact on work effort.
- In relation to paragraph 10 relating to obtaining an understanding of the entity, that consideration should be given to further aligning the text of the requirement with extant ISA 315 (Revised), and as to whether the lead-in could be enhanced to more clearly and appropriately signal scalability. With respect to scalability, it was also noted that, as drafted, the requirement may be too open-ended and therefore may not drive the intended understanding in a consistent manner. The Board further suggested removing some of the sub-headings that were included in the requirement.
- In relation to paragraph 13 relating to the identification and assessment of risks of material misstatement, that further consideration should be given to enhancing the lead-in by clarifying that the matters to be taken into account are inherent risk factors and relate to the assessment of inherent risk but not control risk.
- That the last sentence of paragraph 15, which requires the auditor to design further audit procedures to obtain relevant audit evidence, regardless of whether such audit evidence is evaluated to be corroborative or contradictory, could be further clarified. The Task Force was asked to consider whether the requirement or related application material could mention the importance of obtaining evidence from appropriate sources in an unbiased manner to avoid the implication that the auditor is required to explicitly seek out contradictory evidence.
- Various suggestions to more closely align paragraphs 16–18C (relating to the response to the assessed risks of material misstatement) with other relevant ISAs, as well as to make these paragraphs clearer, more consistent with each other, and more concise.
- When a management's expert is used, clarification of the interrelationship of ISA 540 and ISA 500.

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<sup>24</sup> Draft minutes of the April 24, 2018 IAASB teleconference will be circulated prior to the June 2018 IAASB meeting.

<sup>25</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>26</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

- The relocation from paragraph 21 to paragraph 23 of the bullets related to disclosures should be reconsidered, as the matters they addressed were related to the evaluation of disclosures rather than to obtaining audit evidence about them.
- Clarification was needed about how the enhanced documentation requirement in paragraph 27 should be presented to better align it with the documentation requirements in ISA 315 (Revised), whilst acknowledging that the matters proposed should be documented. Some Board members questioned whether the construct of paragraph 27(b) implied that these matters were intended to be 'significant professional judgments' and therefore significant matters as described in ISA 230.

The Board agreed not to include Appendix 1, which discusses measurement bases for accounting estimates, and Appendix 4, which included an example illustrating scalability, in the ISA, to reduce its length. With respect to Appendix 4, the Board also noted challenges in developing sufficiently detailed examples. It was agreed that the appendices would be further considered in connection with the development of non-authoritative implementation guidance following the approval of the revised standard.

#### EFFECTIVE DATE

The Board discussed the effective date of proposed ISA 540 (Revised) and noted various concerns about the proposed effective date for audits of periods ending on or after December 15, 2019. Concerns expressed included the need for sufficient time for translation into the local language, for local due process requirements, and for firms to update methodologies tools, and training. It was noted that insufficient time for effective and consistent implementation may threaten the objectives of the revised standard from being achieved. The ISA 540 Task Force was asked to further consider the time period needed for effective implementation.

#### CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board discussed **Agenda Item 2-F**. Other than editorial and minor drafting suggestions, the Board agreed with the ISA 540 Task Force's proposals for the conforming and consequential amendments, and noted the following matters:

- In relation to ISA 200,<sup>27</sup> consideration was needed about enhancing the applicability of the last sentence of paragraph A42 in light of other changes proposed to that paragraph;
- In relation to ISA 230,<sup>28</sup> consideration was needed about including an alternative example in paragraph A7 to address professional skepticism, for example, drawing on paragraph 15 of proposed ISA 540 (Revised); and
- In relation to ISA 500, consideration was needed regarding:<sup>29</sup>
  - Further streamlining the definition of an external information source by relocating the explanation of what is not considered to be an external information source to application and other explanatory material;
  - Further clarifying the application material (in paragraphs A33F and A33H) that describes matters the auditor may take into account, and potential procedures that may be undertaken, in considering the relevance and reliability of information from an external information source. The Board suggested better linking the extent of the auditor's work

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<sup>27</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>28</sup> ISA 230, *Audit Documentation*

<sup>29</sup> ISA 500, *Audit Evidence*

effort to the nature and source of the information. In addition, it was noted that this may also clarify how the use of information from an external information source relates to the reasons for the identified and assessed risks of material misstatement

The Board also discussed an updated draft of **Agenda Item 2-F** that included further revisions made during the Board meeting and broadly supported the changes made to respond to Board comments and offered comments and suggestions for further consideration by the Task Force.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin agreed with the ISA 540 Task Force Chair's overview of comments from CAG Representatives (the CAG), which included that the CAG was, generally, of the view that the current standard is more understandable and readable than the Exposure Draft of proposed ISA 540 (Revised), and that the CAG supported the current requirements of proposed ISA 540 (Revised) including the enhancements made relating to the exercise of professional skepticism. In addition, Mr. Dalkin highlighted that the CAG supported the development of a flow chart to illustrate the flow of the requirements, and noted that the CAG had also discussed the importance of considering in due course whether re-exposure would be needed.

#### PIOB OBSERVER REMARKS

Ms. Stothers noted the importance of 'raising the bar' with respect to auditing accounting estimates given the number of inspection findings and the importance of this standard to key stakeholders. Specifically, she supported including the last sentence of paragraph 15, which requires the auditor to design the further audit procedures to obtain relevant audit evidence, regardless of whether such audit evidence is evaluated to be corroborative or contradictory, and the enhanced documentation requirements. Ms. Stothers furthermore noted the importance of considering fraud as part of the assessment of inherent risk and highlighting the importance of including control testing in the *Key Concepts of This ISA* section.

#### WAY FORWARD

The ISA 540 Task Force will bring specific matters to the Board in the April 24 teleconference and will present a revised ISA 540 (Revised), and the related conforming and consequential amendments, for approval at the June 2018 IAASB meeting.