



1 August 2017

Mr Matt Waldron  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Dear Matt,

**AUASB Submission on the IAASB's Proposed International Standard on Auditing ISA 540  
(Revised) *Auditing Accounting Estimates and Related Disclosures***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Proposed International Standard on Auditing ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* ("ED ISA 540").

In formulating its response, the AUASB has sought input from its constituents in three principal ways. The first was from hosting a roundtable meeting with stakeholders in three of the large Australian cities - stakeholders that represent a broad range of backgrounds including assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors, preparers and users of financial statements. The second was through an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

The AUASB is supportive of the intentions behind the IAASB's proposed extensive revisions to ISA 540 and plan to improve audit quality by keeping the auditing standards relevant in the face of continually evolving business environments and pending accounting standard changes (in particular IFRS 9). However, we consider that ED ISA 540 requires further consideration as the AUASB believes that the ED does not achieve its intended objectives for revision, those being:

1. Does the revision appropriately address the concerns causing the revision?

We understand that a key driver to the revision of ISA 540, as indicated in the IAASB's outreach activities, was in response to concerns raised by regulators in relation to audits of financial institutions and other entities, including the application of IFRS 9. Accordingly, the focus of ED ISA 540 is on auditing complex estimates largely found in the financial services sector and not on less complex estimates observed across all industries.

For this reason, the AUASB considers that in its current form, the ED will not rectify the concerns raised by regulators. For example, this revision was originally intended to provide guidance on auditing financial instrument values and loan loss provisioning under the expected credit loss model. While there is some guidance in the proposed consequential amendments to ISA 500, the ED does not contain specific requirements or guidance in these areas. Additionally, in many instances, the ED may widen the gap between practitioners and regulators, particularly with reference to the responsibilities of auditor versus management; the application of a new concept of 'low inherent risk'; and the introduction of the 3 factors of complexity, judgement and estimation uncertainty (refer to questions 3 and 4 of the detailed submission).

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2. Do the revisions achieve the IAASB's desire for standards to be principles based?

The ISAs are a set of principles based standards that focus on the exercise of auditor's professional judgement, meaning that the standards should be able to deal with evolving business environments and financial reporting frameworks. While the AUASB is supportive of the need to revise ISA 540, the AUASB considers that ED ISA 540 is overly prescriptive and rules based. This could lead to increased application of a 'checklist mentality' by the auditor, resulting in a diminution of professional judgement and scepticism and a subsequent unintended decline in audit quality, as well as a standard that is not able to deal with evolving business environments and financial reporting frameworks (refer response to question 2 of the detailed submission).

We encourage the IAASB to return to a more principles based standard, characterised by providing the auditor with the capacity to exercise their professional judgement in achieving the principle. This may mean there are multiple acceptable methods to achieving the principle, avoiding the checklist mentality. We also encourage the distinction between application paragraphs versus illustrative guidance material. Where material is added to ISA 540 which may be considered specific to certain types of estimates or industries, such as financial services, these may be better placed outside of the standard in industry-specific illustrative guides.

3. Do the revisions achieve the required flexibility in application?

A key element in the purpose of the revision of ISA 540 was to promote scalability of the ISA. In its current form the AUASB is concerned as to how this ED will work practically outside of large and complex sectors and industries (particularly financial services), as well as posing significant practical challenges for mid-tier and smaller practitioners (refer response to question 3 of the detailed submission).

In light of the comments above, and having reviewed the proposed changes and sought feedback from a wide range of stakeholders within Australia, the AUASB is not supportive of the ED in its current form and raises the following key points of particular importance for the IAASB's consideration. Each of these is elaborated on further in our attached detailed submission:

- i. The AUASB does not support the introduction of the new threshold '**low inherent risk**', given the lack of definition or parameters around what constitutes a low inherent risk, as well as the disconnect and inconsistency to ISA 315, where risk of material misstatement is what determines nature, extent and timing of audit effort. The AUASB considers that the risk of material misstatement is what should be used as the driver of scalability. Estimates by their nature are judgemental - based on the examples presented in the ED it is questionable as to whether all but the simplest of estimates would have an inherent risk other than low associated with it. For this reason, the AUASB does not consider "low inherent risk" to be a workable concept in this standard (refer question 3 of the detailed submission).
- ii. The AUASB is not supportive of the use of the **concepts of complexity, judgement and estimation uncertainty as the drivers determining the nature and extent of audit procedures**. The AUASB considers that the extent of audit effort should be focused on the risk of material misstatement at the financial statement and assertion level, with the 3 factors of complexity, judgement and estimation uncertainty being considerations in the assessment of the risk of material misstatement. The auditor should then determine the most appropriate response to the assessed risk rather than being driven by a list of audit procedures. In addition, the AUASB does not support the compartmentalisation of these factors, as they are often integrated and are not mutually exclusive. For example, complexity is often a factor raising or lowering estimation uncertainty, and the application of significant judgement from management may be the response thereto. As such, as currently drafted, it would appear that many (if not all) of the "procedures" in paragraphs 17-20 would represent relevant considerations for most (if not all) accounting estimates. Compartmentalising the factors may lead to a checklist based approach which may be seen as a limitation to the IAASB objective of scalability and lead to a potential deterioration in audit quality.

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- iii. The AUASB is concerned that the **designation of responsibilities between the auditor and management** is sometimes unclear. This may lead to confusion and potentially an increase in scope of auditor's responsibilities when applied in practice. The AUASB considers that the standard is inappropriately tending to shift the onus from preparer to auditor (refer 2.2 and 5 of the detailed submission), without a clear pathway for when the auditor determines material non-compliance with the accounting standards and therefore modifies the audit report.

The AUASB's detailed responses to the specific questions asked in the Exposure Draft accompany this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact me or Matthew Zappulla at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au)

Yours sincerely,

Professor Roger Simnett AO  
Chair

## Attachment 1

### **Q1: Has ED-540 been appropriately updated to deal with *evolving financial reporting frameworks* as they relate to accounting estimates?**

The AUASB is supportive of the intentions behind the IAASB's proposed revisions to ISA 540 and plan to improve audit quality by keeping the auditing standards relevant in the face of continually evolving business environments and pending accounting standard changes (in particular IFRS 9). However, we consider that ED ISA 540 requires further consideration as the AUASB believes that the ED does not achieve its intended objectives for revision, those being:

#### 4. Does the revision appropriately address the concerns causing the revision?

We understand that a key driver to the revision of ISA 540, as indicated in the IAASB's outreach activities, was in response to concerns raised by regulators in relation to audits of financial institutions and other entities, including the application of IFRS 9. Accordingly, the focus of ED ISA 540 is on auditing complex estimates largely found in the financial services sector and not on less complex estimates observed across all industries.

For this reason, the AUASB considers that in its current form, the ED will not rectify the concerns raised by regulators. For example, this revision was originally intended to provide guidance on auditing financial instrument values and loan loss provisioning under the expected credit loss model. While there is some guidance in the proposed consequential amendments to ISA 500, the ED does not contain specific requirements or guidance in these areas. Additionally, in many instances, the ED may widen the gap between practitioners and regulators, particularly with reference to the responsibilities of auditor versus management; the application of a new concept of 'low inherent risk'; and the introduction of the 3 factors of complexity, judgement and estimation uncertainty (refer to questions 3 and 4 of the detailed submission).

#### 5. Do the revisions achieve the IAASB's desire for standards to be principles based?

The ISAs are a set of principles based standards that focus on the exercise of auditor's professional judgement, meaning that the standards should be able to deal with evolving business environments and financial reporting frameworks. While the AUASB is supportive of the need to revise ISA 540, the AUASB considers that ED ISA 540 is overly prescriptive and rules based. This could lead to increased application of a 'checklist mentality' by the auditor, resulting in a diminution of professional judgement and scepticism and a subsequent unintended decline in audit quality, as well as a standard that is not able to deal with evolving business environments and financial reporting frameworks (refer response to question 2 of the detailed submission).

We encourage the IAASB to return to a more principles based standard, characterised by providing the auditor with the capacity to exercise their professional judgement in achieving the principle. This may mean there are multiple acceptable methods to achieving the principle, avoiding the checklist mentality. We also encourage the distinction between application paragraphs versus illustrative guidance material. Where material is added to ISA 540 which may be considered bespoke to certain types of estimates or industries, such as financial services, these may be better placed outside of the standard in industry-specific illustrative guides.

#### 6. Do the revisions achieve the required flexibility in application?

A key element in the purpose of the revision of ISA 540 was to promote scalability of the ISA. In its current form the AUASB is concerned as to how this ED will work practically outside of large and complex sectors and industries (particularly financial services), as well as posing significant practical challenges for mid-tier and smaller practitioners (refer response to question 3 of the detailed submission).

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**Q2: Do the requirements and application material of ED-540 appropriately reinforce the application of *professional scepticism* when auditing accounting estimates?**

The AUASB considers that the application of professional scepticism is appropriately reinforced when auditing accounting estimates in the ED. While professional scepticism is a general concept that sits across the suite of auditing standards, owing to its nature and significance as it relates to accounting estimates, the AUASB is supportive that the ED does not need to explicitly reference the term ‘professional scepticism’. We support the approach taken in the ED which includes specific audit procedures designed to enhance the auditor’s application of professional scepticism, including more granular requirements with respect to obtaining audit evidence, better identify indicators of bias and including a stand back provision.

*2.1 Stand back provision*

The ED has included concepts that appropriately align to and highlight the importance of the exercise of professional scepticism, particularly the inclusion of a stand back provision as introduced by paragraph 22. This requirement serves as a reminder to practitioners as to the importance of the exercise of professional scepticism in their overall assessment of accounting estimates and related disclosures.

While this stand-back provision is a new requirement of the standard, the AUASB considers that the requirement needs to be more explicit in its wording and call out exactly what the intention of the requirement is. i.e. for auditors to stand-back and assess the estimates considering all supporting audit evidence.

Additionally, there is a level of concern expressed by practitioners that the requirement in paragraph 27 does not adequately address the documentation requirements regarding this provision. The AUASB recommends that the documentation requirements or application material is expanded to address the nature and extent of documentation requirements in relation to the stand back provision.

Furthermore, the AUASB considers that a missing element from the stand-back provision is the requirement for the auditor to revisit their initial risk assessment to determine whether their assessments remain appropriate.

*2.2 Audit evidence as provided by management*

The AUASB is concerned that the designation of responsibilities between the auditor and management in the ED is sometimes unclear. This may lead to confusion and potentially an increase in scope of auditor’s responsibilities when applied in practice. In our view, the root cause of any perceived shortcomings in the application of professional scepticism in relation to accounting estimates and related disclosures may be associated with inadequate documentation, calculation and models in relation to estimates that are provided to auditors by management and those charged with governance. Whilst this issue is unlikely to be addressed solely through the revision to auditing standards, the AUASB considers that the ED has the potential to inappropriately shift the onus of proof from preparer to auditor without a clear pathway for when the auditor determines material non-compliance with the accounting standards and therefore modifies the auditor’s report. Where the auditor develops their own point estimate or range to evaluate reasonableness of an estimate, as a replacement for management’s point estimate or range, as indicated by paragraphs 19(b) and A127, this may limit the exercise of professional scepticism and judgement. Where the auditor develops their own point estimate or range as an independent check to management’s outcome, this is considered appropriate. The AUASB would like to see this distinction clearly articulated in the standard.

ED 540 needs clarification for circumstances where sufficient and appropriate audit evidence cannot be obtained from management, which may result in a modification to the opinion in the auditor’s report based on a scope limitation. The AUASB would like to see clearer requirements or application guidance in the standard that the requirement to produce evidence supporting the reasonableness of accounting estimates lies with the preparer and not the auditor.

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### 2.3 *Prescriptiveness and language of standard*

The AUASB considers that the standard, in particular the application material, is too verbose (for example paragraphs 17 and 18), and is overly prescriptive and rules based. This may result in a checklist mentality being applied and a diminution of auditors' professional judgement and scepticism, leading to an unintended decline in audit quality.

Furthermore, the AUASB considers that there are a considerable amount of new concepts and new terminology being introduced by this standard that has not been appropriately defined and considered in the context of the entire suite of standards. For example – 'low inherent risk'; 'significant data'; 'significant assumptions'; and (in the context of disclosures) a shift in terminology from 'adequate' to 'reasonable'. Additionally the term 'reasonable' is used throughout the standard and the term is highly subjective and general. Such a large shift in concepts and terminology in one standard may cause unintended consequences in the application of these concepts.

In addition, the AUASB considers that the language in the standard could be strengthened to further promote the exercise of professional scepticism by being more focused on words that challenge and critically assess rather than corroborate. An example is in paragraph 19, where the auditor obtains sufficient appropriate audit evidence whether managements point estimate is reasonable.

Finally, the AUASB considers that the wording of the standard is, in certain instances, taking the exercise of professional scepticism too far. For example, paragraph A101 indicates that the auditor should look to any other alternative.

#### **Q3: Is ED-540 sufficiently *scalable* with respect to auditing accounting estimates, including *when there is low inherent risk*?**

The AUASB does not support the introduction of the term 'low inherent risk' (refer 3.1 below).

The AUASB does not consider ED 540 to be sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk. There is no explicit scalability in many of the requirements within the ED, which may lead to uncertainty and the auditor undertaking an increased level of work effort at additional cost across all estimates even where the auditor does not consider the estimate to have a risk of material misstatement. Additionally, the AUASB raises concern as to the practicality of how the requirements apply outside of significantly large and complex sectors and industries. This may also pose significant practical challenges particularly for mid-tier and smaller practitioners.

#### *3.1 Concept of low inherent risk*

The AUASB does not support the introduction of the threshold 'low inherent risk', given the lack of definition or parameters that define this term, as well as the inconsistency with ISA 315 where risk of material misstatement is what determines nature, extent and timing of audit effort. The AUASB considers that the risk of material misstatement is what should be used as the driver of work effort and scalability.

The AUASB is concerned around the scalability of the standard being determined by an assessment of low inherent risk as distinct from risk of material misstatement and considers that this may drive an unintended significant uplift in audit effort. ISA 200 determines that the assessment of the risk of material misstatement can be completed as a combined or separate assessment of both controls and inherent risk. As the ED is based on a separate inherent risk assessment, it is not clear how practitioners that perform combined risk assessments will be impacted and a separate inherent risk assessment may be contrary to common practice. In addition, for those accounting estimates for which the inherent risk is assessed as 'not low' there is a broad range of different types of estimates, some of which will have a higher inherent risk than others. In the ED there is no category of inherent risk between 'low' and 'not low', however the granular requirements in paragraphs 17-19 apply to all estimates regardless of the level of inherent risk above 'not low'.

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For the reasons outlined above, the AUASB considers that inherent risk in isolation should not drive audit effort in the context of this standard. The AUASB considers that, while the intention of scalability is apparent in the standard, there is not sufficient flexibility in the requirements. Accordingly the AUASB is concerned that practitioners may audit estimates to a predefined ‘checklist mentality’, (refers response to question 1 and 2.3), applying the procedures within paragraphs 17-19, rather than responding to an appropriate level of assessed risk of material misstatement. The AUASB is therefore concerned that this would result in an increase in work effort that is disproportionate to the level of risk of material misstatement.

### 3.2 *Examples of low inherent risk*

Estimates by their nature are judgmental, however based on the examples given in paragraph A72 it would appear that all but the simplest of estimates would have an inherent risk other than ‘low’. Based on the examples provided it is arguable that almost all estimates would have an inherent risk greater than low and make it difficult for practitioners to justify a low inherent risk classification. For this reason, the AUASB is not supportive of the concept of low inherent risk as the driver of audit effort in this standard.

**Q4: *When inherent risk is not low (see paragraphs 13, 15 and 17–20):***

**a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?**

**b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?**

As outlined in the response to question 3 above, the AUASB is not supportive of the concept of low inherent risk as the driver of audit effort. Additionally, the AUASB is not supportive of the use of the concepts of complexity, judgement and estimation uncertainty as the drivers determining the nature and extent of audit procedures. The AUASB considers that the extent of audit effort should be focused on the risk of material misstatement at the financial statement and assertion level, with the 3 factors of complexity, judgement and estimation uncertainty being considerations in the assessment of the risk of material misstatement. The auditor should then determine the most appropriate response to the assessed risk, rather than being driven by a list of audit procedures. We consider the 3 factors should not necessarily be the primary drivers of audit effort.

In addition, the AUASB does not support the compartmentalisation of these factors as they are often integrated and overlapping, for example complexity is often a factor raising or lowering estimation uncertainty, and the application of significant judgement from management may be the response thereto. As such, as currently drafted, it would appear that many (if not all) of the testing objectives in paragraphs 17-20 would represent relevant considerations for most (if not all) accounting estimates. Given the difficulty in distinguishing between the concepts of ‘complexity’, ‘judgement’ and ‘estimation uncertainty’, auditors may default to addressing all the testing objectives in paragraphs 17-20.

Compartmentalising the factors may lead to a checklist based approach which may be seen as a limitation to the IAASB objectives of scalability and enhanced professional scepticism (refer to Question 3). Rather, the AUASB envisages that all 3 factors along with their criteria are covered under one umbrella, with the auditor exercising professional judgement in addressing the specific risks resulting from consideration of the factors and their criteria as a whole. To this end, the AUASB is supportive of the construct and content of the requirements set out in paragraph 13 of ED ISA 540, but does not support the prescriptive nature of paragraphs 17-19. The construct and prescriptiveness of paragraphs 17-19 may result in a rules-based checklist mentality and diminished exercise of auditor’s professional judgement and scepticism. The AUASB considers that much of

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the content included in paragraphs 17-19 should be matters for consideration rather than requirements and accordingly should be instead included as application material for the content included in paragraph 13.

**c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?**

The AUASB had a mixed response to this question and notes that in some areas the guidance is too lengthy, while in other areas guidance is seen as lacking.

While improved and additional application material may be beneficial, the AUASB considers that the current ED is verbose and overly prescriptive, leading to diminution of auditor's professional judgement. Additionally, the language and layout of the application material is more editorial and background in nature, as compared with what we expect application material to constitute - practical examples and other explanatory details and procedures that are included for the purposes of understanding, and complying with, mandatory requirements. To this end, it is becoming difficult to extract the true guidance from the "for information/background" only material. This background information should be removed from the application material and either included in appendices, similar to the approach taken in Appendix 2 of the ED, or separate illustrative guides.

Furthermore, the AUASB considers that the supplement that was issued by the IAASB to the ED, *Illustration of work effort requirements*, is beneficial in understanding the flow of the standard, and accordingly believes it is beneficial to include the diagram as an appendix to the standard.

**Q5 and Q6: Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor's range should be developed? Will this approach be more effective than the approach of "narrowing the range", as in extant ISA 540, in evaluating whether management's point estimate is reasonable or misstated.**

**Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor's range to evaluate management's point estimate?**

The term 'reasonable' is used throughout the ED and paragraph 20 requires the auditor's range to be reasonable when used to evaluate management's point estimate. While paragraph A2 describes the concept of 'reasonable', it is subjective and general in nature. The AUASB believes it would be beneficial for the IAASB to provide more guidance and key considerations to facilitate practical application of the term 'reasonable'.

The AUASB considers that an auditor would develop their own range if considered optimal from a "gathering of sufficient appropriate audit evidence" perspective and as an independent check to management's outcome, but it should not be a requirement to do so in order meet the requirements of ED ISA 540. The development of a range or a point estimate for reporting purposes is the responsibility of the preparer. The AUASB is concerned that the designation of responsibilities between the auditor and management is sometimes unclear, which may lead to confusion and potentially an increase in scope of auditor's responsibilities if applied in practice. The AUASB considers that the standard is inappropriately tending to shift the onus from preparer to auditor. Where the auditor develops their own point estimate or range to evaluate reasonableness of an estimate, as a replacement for management's point estimate or range, as indicated by paragraphs 19(b) and A127, this may limit the exercise of professional scepticism and judgement and may be detrimental to audit quality. Where the auditor develops its own point estimate or range as an independent check to management's outcome, this is considered appropriate. The AUASB considers that this distinction should be clearly articulated in the standard.



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ED 540 needs clarification that in circumstances where sufficient and appropriate audit evidence cannot be obtained from management, then the auditor will assess the impact of this and it may result in a modification to the opinion in the auditor's report based on a scope limitation. Additionally, the AUASB considers that further guidance is needed to clarify the expectations of when an auditor's range should be developed and how that range is utilised in evaluating management's point estimate. The AUASB does not consider that the requirement in paragraph 23 with the associated guidance will result in a more consistent determination of a misstatement.

### *5.1 Ranges exceeding materiality*

It is not clear whether the ED is introducing the concept that all ranges need to be within materiality – which for some estimates would not be possible. Some estimates are complex, involve a significant amount of judgement and can include significant estimation uncertainty. In such circumstances, the estimation uncertainty can lead to a range of possible outcomes that can be many multiples of materiality. In reality, it may not be possible to reduce the residual estimation uncertainty and bring greater precision to an estimate that is inherently imprecise under the applicable financial reporting framework.

In the ED, this appears to be addressed in paragraph 20(b) where “other requirements of the applicable financial reporting framework” can be read as referring to materiality. This reference diminishes the exercise of auditor's professional scepticism and professional judgement. The AUASB acknowledges that this may well stem from the regulator concerns regarding how auditors are using auditor's professional scepticism and professional judgement in the establishment of their ranges and thresholds and holding to them consistently. In practice it is unlikely that ranges set are always within materiality, especially as management's or auditor's experts engaged by auditors or management (e.g. valuers) do not take materiality into consideration when they set their ranges. The AUASB considers that the standard requires clarity where ranges exceed materiality. Furthermore, the application material could be expanded to address the types of considerations auditors use in the establishment of setting ranges and thresholds, and mechanisms through which an auditor documents and reconsiders those thresholds in the conduct of the audit. Where necessary, the implications of these, when outside parameters, should be linked to the possible audit report outcomes.

### *5.2 Substantive analytical procedure*

Paragraph A128 assumes that where an auditor develops a point estimate or uses an auditor's range, the auditor is performing a substantive analytical procedure for which ISA 520 is the reference point for further audit requirements. The AUASB identifies that many practitioners do not consider their development of a point estimate or range to be a substantive analytical procedure but rather a hybrid of test of detail and substantive analytical procedure, which the exposure draft does not address. (For example, when testing derivatives a sample would be tested through independently determining a point estimate or reasonable range). Furthermore, the AUASB suggests that a ‘hierarchy’ could be built into the standard to guide auditors on when the use of a point estimate or range is most appropriate.

### *5.3 Misstatements*

The AUASB considers that the determination of materiality is still open to interpretation and has not been sufficiently considered within the ED, particularly for those misstatements that represent judgemental differences rather than factual misstatements. The AUASB considers that a greater volume of principle based examples would be helpful in the application material, or within an Appendix, on the use of the point estimate or range and how misstatements are calculated. Visual examples of how the range applies in paragraph A145 could be beneficial.

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**Q7: With respect to the proposed conforming and consequential amendments to ISA 500 regarding *external information sources*, will the revision to the requirement in paragraph 7 and the related new additional application material result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources?**

The AUASB is largely supportive of the proposed conforming and consequential amendments to ISA 500 regarding external information sources and considers the proposed amendments to the requirements of ISA 500 to be clear.

However, the AUASB notes that the wide applicability to all standards needs to be carefully considered as in practice this may result in significantly more audit effort (as for example, reference to ISAE 3402 type reports). Furthermore, additional application material may be required in ISA 500 as to the extent of audit work required to understand the process in gathering information used in external information sources, and may potentially lead to more assurance reporting on controls at service organisations.

Furthermore, the AUASB considers that more guidance is needed where management and the auditor use the same information source. The AUASB currently considers the guidance contained in paragraph A33H to be unclear, particularly where there is only one provider of certain information.

In addition, the AUASB highlights that the proposed amendments to ISA 500 are limited to the revision of the requirement in paragraph 7 and stand-alone additional application material and that it states that these amendments are relevant for external information sources. Based on this, the AUASB seeks to understand whether the intention is then that the other requirements in ISA 500 are only relevant to internal information sources or whether they are applicable to both internal and external information sources.

**Q8: In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

**(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-540.**

Not applicable to the AUASB – no further comments.

**(b) Effective Date—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 encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

The AUASB supports an effective date of financial reporting periods ending approximately 18 months after the approval of a final ISA with earlier application permitted and encouraged. In saying that, given that ED 540 has changed considerably from the extant ISA 540, is much more extensive, and contains a number of prescriptive requirements, allowing extended time enables management to establish appropriate processes, controls and documentation required to enable the auditor to address the requirements of ED 540. Additional time is required to educate the business community, management and auditors with respect to the management's and auditor's responsibilities under ED 540. Over this period we would like to see the IAASB communicate broadly with the capital markets community regarding the intended benefits of the standard, commensurate with the additional potentially significant time and cost auditors will invest to

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comply with the standard. We consider the leadership of the IAASB in this regard is necessary to ensure the purchasers of audit services are well informed when considering the cost of delivering an audit service under the ISAs.