



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	4(a)
Meeting Date:	31 July 2018
Subject:	ED 03/18 Proposed Auditing Standard ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> ED 04/18 Proposed Auditing Standard 2018-2 <i>Amendments to Australian Auditing Standards</i>
Date Prepared:	25 July 2018

Update on matters raised by the AUASB at the 13 June 2018 AUASB meeting on ISA 540 *Auditing Accounting Estimates and Related Disclosures*

A. Key Issues Raised

1. Paragraphs 26(b)/A111/A112/A118 – Development of a range or point estimate by the auditor

Matter Raised by the AUASB at the 13 June 2018 AUASB meeting

The AUASB raised concerns with the wording in paragraph 26(b) ‘*to the extent possible*’ and associated application material. The AUASB considered this wording to inappropriately shift the onus from preparer to auditor where the preparer has not fulfilled their role. The AUASB considered that the requirements of paragraph 26(b) went beyond what is expected under the financial reporting frameworks, which is not considered appropriate. The development of a range or point estimate for reporting purposes is the responsibility of the preparer. Additionally, this wording diminished the exercise of auditor’s professional judgement in circumstances where the auditor may consider that they have gathered sufficient appropriate audit evidence to form a view that a misstatement exists rather than then fulfilling the role of the preparer. Furthermore, ISA 540 needed 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.

Update on Matter

The IAASB have made changes to the wording of the requirement in paragraph 27 and associated application paragraphs in A115 - A117. The AUASB technical group considers these changes address the AUASB’s primary concern, reducing the requirement for the auditor to develop a point estimate or range “to the extent possible” to “to the extent practical, without compromising the auditor’s independence”. This is a lower bar and provides an appropriate exclusion for the auditor where it is impracticable to independently determine the point estimate.

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Furthermore the clarifications in the updated application guidance adds a point covering where it is not appropriate for the auditor to develop an auditor's point estimate or range, rather than just not possible in the previous version of ISA 540 presented earlier.

The AUASB technical group considers these changes remove the key issue that the AUASB identified which effectively compelled the auditor in all possible scenarios to develop the point estimate or range.

2. Embedded requirements relating to the work required to review the work of Management's experts in A129.

Matter Raised by the AUASB at the 13 June 2018 AUASB meeting

With reference to the inclusion of a new application paragraph A129 in relation to management's experts, including:

- a. the significant uplift in audit effort in relation to the work of management's experts was beyond the requirements of ISA 500 *Audit Evidence*, bringing into question the purpose of a management's expert and why they would be used; and
- b. the wording in the application material was akin to a requirement and accordingly should be contained within the requirements of the standard and not within the application material.

Update on Matter

Amendments were made to paragraph 30 but also the associated application material paragraphs A130 – A 132. The key wording change here is the addition of Paragraph A131 which now means the requirements in ISA 540 around the development of a point estimate or range by the expert are only a reference point and not a requirement. To clarify this matter the IAASB task force has added additional material linking this part of the standard back to ISA 500 and the requirements around the use of a management expert in this standard. The AUASB technical group considers that the AUASB's significant concern has been addressed, but it may create an implementation challenge as auditors will need to be aware of the requirements in both ISA 500 and ISA 540 when evaluating the work of management experts for estimates.

3. Effective date

Matter Raised by the AUASB at the 13 June 2018 AUASB meeting

The AUASB discussed the proposed effective period and supported an extension of the effective period to be appropriate. The AUASB supported an effective period beginning on or after 15 December 2019.

Update on Matter

The standard's effective date has been changed to periods beginning on or after 15 December 2019.

B. Other Matters Raised

There were other matters raised by the AUASB that were not considered to be key issues which were communicated to the IAASB task force for their consideration. The matters raised and where the final ISA 540 has landed is summarised below:

1. With reference to paragraphs 18(a) and 21: The AUASB suggested a reference to disclosures within paragraph 20(a) to be consistent with the requirements in relation to testing options included at paragraphs 17(b) and 17(c). The AUASB considered that the requirements currently contained within paragraph 20 does not address disclosures.

The IAASB has not made any change in relation to the point above. The AUASB Technical Group does not have concerns in this area as the AUASB technical group considers that obtaining audit

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evidence from events occurring up to the date of auditor's report may be a testing approach for a low risk / non-complex estimate.

2. With reference to paragraph 33: The AUASB considered the stand back requirements to be more granular than the objectives set out in paragraph 11 and considered that the 2 paragraphs should be more closely aligned.
The IAASB has not made any change in relation to the point above. The AUASB Technical Group does not have concerns in this area, paragraph 11 is the high level objectives, and paragraph 33 contains the detailed requirements.
3. Paragraph A88: The second bullet point, the AUASB questioned why electronic initiation, recording, processing or reporting of information was amplified as an example of a circumstance where substantive procedures alone are cannot provide sufficient appropriate audit evidence.
The IAASB has not made any change in relation to the point above. The AUASB Technical Group does not have concerns in this area.
4. With reference to paragraph A128 and using information from an external information source, the AUASB considered that the example provided is not appropriate and created a level of granularity that is generally not practical and appears to set a very high bar for information authentication.
The IAASB has not made any change in relation to the point above.
5. Paragraph A137: The AUASB considered that this paragraph should be deleted in the context of an overall stand back, it reads that the auditor is expected to have as much evidence as the preparer had to originate the estimate and its disclosures.
This paragraph has been deleted in the final version of ISA 540.
6. Paragraph A139: The AUASB considered that this application material should be lifted into a requirement following paragraph 34.
The IAASB has not made any change in relation to the point above and the paragraph remains in application material.
7. The terms verify, calibrate and validate appeared throughout the standard. These terms imply absolute (100%) rather than reasonableness, the AUASB suggests that these terms are revisited (examples: A51, Appendix 1 paragraph 5).
The term calibrate is no longer used in the final standard, the term verify appears in paragraph A90 and the term validate appears in paragraph A39. Both words are not used in the requirements but in application material.
8. A number of AUASB members considered that there has been substantial change to the principles of the exposed ED ISA 540 and accordingly considers that IAASB due process should require the re-exposure of ISA 540.
The IAASB considered the issue but voted by a majority not to re-expose this document.

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