



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 30 May 2017

Subject: ED ISA 540 Auditing Accounting Estimates and Related Disclosures

Date Prepared: 22 May 2017

Action Required

For Information Purposes Only

Agenda Item Objectives

To update the AUASB on the progress of the project feeding into the AUASB response to the IAASB ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*.

Background

In April 2017, the IAASB released for comment ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*. Responses for this ED are due 1 August 2017. The timing of the release of the final standard is dependent on the comments received, and won't be known until later this year, however is likely to be in early / mid 2018.

Strategy to gather stakeholder feedback as per project plan:

- Conduct 3 roundtables (Brisbane, Melbourne and Sydney)
- Meet with Regulators
- Liaise with NZAuASB

Progress made to date:

- Brisbane Roundtable held on 8 May 2017: 15 external attendees, represented largely by: big 4, mid-tier, CPA and QAO.
- Melbourne Roundtable held on 19 May 2017: 16 external attendees represented largely by big 4, mid-tier, ACNC, CAANZ, CPA and VAGO.

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Key Themes arising (to date):

1. Scalability issues - not only size of audit firm, but also nature of estimates. Constituents are concerned about the capture of estimates where inherent risk (IR) is not low, but the ROMM is not high.
2. Practitioners raised concern that current wording would mean that it is rare than an estimate would be considered to be low risk. Furthermore, an estimate may likely fit into all 3 categories (complexity, judgement, estimation uncertainty) which may lead to confusion as to whether the procedures in all 3 categories needs to be done.
3. Sheer size of the standard and looseness of the application material is problematic. Application material is not viewed as helpful and is considered repetitive.
4. Discomfort around the introduction and application of the concept of low IR. Challenge applying new ISA 540 with extant ISA 315, in terms of the concept of significant risk.
5. Widening gap between practitioners and regulators in relation to estimates captured and extent of audit work.
6. Overly prescriptive approach to standard results in loss of auditor judgement and may lead to “checklist mentality” being applied. Standard seems to be heading down the path of auditor re-performance.
7. Concept of complexity could be problematic, as there is no guidance regarding relativity of complexity, that may impacted by skill of audit team and nature of industry.
8. Lack of clarity still exists where auditor’s range and/or client’s range exceeds materiality.
9. Reference to management throughout the standard, education of preparers/TCWG remains an issue.

Next Steps:

1. Sydney Roundtable 5 June 2017.
2. Liaison with NZAUASB and co-ordinate respective responses.
3. Meetings with regulators and larger firms.
4. Draft response to 18 July 2017 AUASB meeting for Board comment and feedback.

Material Presented

Agenda Item

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