



Subject: Minutes of the 104th meeting of the Auditing and Assurance Standards Board (AUASB)
Venue: ASIC Offices, Level 5, 100 Market Street, Sydney
Date: 29 October 2018, 9:30am to 1pm

Attendance

AUASB Members: Professor Roger Simnett (Chair)
Mr Gareth Bird
Mr Robert Buchanan (via teleconference)
Ms Jo Cain
Ms Julie Crisp (via teleconference)
Mr Chris George
Dr Noel Harding
Ms Carolyn Ralph
Mr Justin Reid
Mr Ashley Wood

AUASB Technical Group: Mr Matthew Zappulla
Ms Rene Herman
Ms Anne Waters

Apologies: Ms Robin Low (Deputy Chair)

Minutes

(Agenda Item 1 – Minute 1230) – Preliminary Session

The Chair welcomed members to the 104th AUASB meeting. The Chair provided an update of IAASB matters arising from the September 2018 IAASB meeting including:

- The approval to issue the Exposure Draft on ISRS 4400 (Revised) – *Agreed-Upon Procedures Engagements*, for a period of 120 days with an expected release date of November 2018. The Chair commented that he expected that targeted outreach could be undertaken in Australia and that he would consult with the Deputy Chair in this regard;
- The expectation that the three Quality Standards ISQM 1, ISQM 2 and ISA 220 will be approved as Exposure Drafts at the December 2018 IAASB meeting;
- An update on the EER project; and
- Confirmation that the project on Less Complex Entities is now firmly on the IAASB agenda.

Additionally, the Chair highlighted and provided an update in relation to the upcoming November 2018 events being held in Sydney, being the EER Roundtable, the NSS Forum and the World Congress of Accountants.



(Agenda Item 2 – Minute 1231) – ED ASA 315 *Identifying and Assessing the Risks of Material Misstatements*

The AUASB considered, discussed and provided input into the draft AUASB submission to the IAASB on Exposure Draft (ED) ISA 315 *Identifying and Assessing the Risks of Material Misstatement* ('AUASB submission') as well providing feedback on the *Comments Received and Proposed Disposition Paper* in relation to the Australian equivalent ED.

The Audit Technical Group (ATG) presented to the AUASB a summary of the roundtable feedback and submissions received on the ED, then presented a paper outlining the disposition of all comments received which mapped to the draft AUASB submission. In addition the Chair and the ATG staff described the process by which the ATG had developed these documents and the methodology applied to determine which comments from stakeholders were incorporated into the AUASB's response. Finally the ATG highlighted the diversity of views on some issues associated with the ED and the process to finalise the AUASB's submission from this point, especially as there was a very short timeframe before the IAASB's deadline for submissions on 2 November 2018.

A number of AUASB members highlighted that a number of comments received on exposure, as raised in the *Comments Received and Proposed Disposition Paper* had not yet been fully addressed by the ATG and therefore were not completely and accurately mapped to the draft AUASB submission. The AUASB requested that the ATG revisit the *Comments Received and Proposed Disposition Paper* to ensure that all matters raised on exposure are appropriately considered, reflected in and mapped to the AUASB submission.

AUASB members commented that the tone and overall feedback of the draft submission was coming across as supportive of the Exposure Draft and that several AUASB key concerns were not strongly reflected in the AUASB submission. The AUASB requested that the ATG revisit the tone and level of support expressed for the proposed standard. In particular the AUASB commented that feedback to the IAASB needs to reflect that the proposed standard is overly complex and detailed, meaning that practitioners are likely to find it difficult to understand and interpret. Additionally, the AUASB considers that this complexity negatively impacts the proposed standard's scalability to audits of entities across different market segments and industries, and in particular audits of small and medium entities.

The AUASB provided suggestions of amendments to several of the responses to the Exposure Draft questions. In particular, the AUASB requested that the ATG elevate several matters to Question 1 on the basis that Question 1 covers the general overall feel of the proposed standard. Additionally, the AUASB questioned the unqualified support to Question 1 in the draft AUASB submission. Furthermore, the AUASB requested that the ATG revisit the responses to Question 5 of the Exposure Draft with particular reference to stakeholder comments received.

The AUASB requested that the following key concerns and recommendations are reflected in the AUASB submission:

- terminology used in ED 315 to identify risks could be simplified by only requiring an initial identification of inherent risk and control risk, and then combining these into a defined assessment of risk of material misstatement. The AUASB considers that the current use of the singular term ("risks of material misstatement") both before and after the separate assessment of inherent risk and control risk may be confusing.
- the requirement to consider the "likelihood *or* magnitude", as opposed to the "likelihood *and* magnitude" when identifying and assessing significant risks may result in unnecessary significant risks being identified. The AUASB does not support the use of the word '*or*' in this context.
- the AUASB does not support the proposed definitions relating to "significant classes of transactions, account balances and disclosures" and "relevant assertions". A relevant assertion is an assertion where there is a reasonable possibility of occurrence of a misstatement, which is defined as when the likelihood of a material misstatement is "more than remote". The AUASB considers that the term "more than remote" is different to "reasonable possibility", and this revised definition may result in



more significant classes of transactions, account balances, or disclosures being identified than was intended. The AUASB suggests that additional guidance is required to clarify these terms in the proposed standard.

- the AUASB recommends more guidance and examples be included in the application material of the proposed standard on how to effectively scale the work effort in ED 315 to less complex entities, such as examples of: how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted; and how to perform risk identification and assessment procedures when the entity's system of internal control may be less detailed and formalised.

The AUASB also discussed the more general overall concern that the auditing standards or exposure drafts recently issued or currently in development by the IAASB all contain greater complexity and detail than the extant standards they are replacing, which is making the standards more challenging for auditors of smaller and medium or less complex entities to apply. The AUASB requested that the ATG include in the submission the need for the IAASB to address the impact this issue is having on small/medium/less complex audits and auditors from small and medium practices.

(Agenda Item 3 – Minute 1232) – ED ASA 540 *Auditing Accounting Estimates and Related Disclosures*

The Audit Technical Group (ATG) presented to the AUASB a summary of the roundtable feedback and submissions received on ED ASA 540 and a disposition paper analysing all the responses. It was noted that only one respondent had raised matters which may require considerable discussion, and that to date all other jurisdictions (including New Zealand) had adopted ISA 540 with no modifications. Based on the ATG's assessment of submissions received, feedback from the roundtables and consideration of other national standard setters, the AUASB technical group did not identify any compelling reasons to amend ASA 540 from the International version approved by the IAASB.

The AUASB considered and discussed the ED ASA 540 *Comments Received and Proposed Disposition Paper* with particular reference to the matter raised by one stakeholder in relation to the expectation of the auditor in relation to the point estimate/range calculation. This stakeholder's view was that the proposed wording in paragraph 27(b) of the standard represented a blurring of the lines between the auditor's and management's responsibilities when it came to this matter. The ATG considered the stakeholder's comments in its disposition paper and noted that no other stakeholders raised similar views. Further discussion by AUASB members acknowledged this was a challenging issue and agreed that there is a need for implementation guidance in this area. Accordingly there was a consensus that either the IAASB or ATG need to make developing implementation guidance on this topic a priority. On this basis the AUASB agreed there was no compelling reasons identified requiring modification to ASA 540 Auditing Accounting Estimates and Related Disclosures for this matter.

In addition to this matter being included as implementation guidance in the future, the ATG highlighted to the AUASB that all implementation issues raised by Australian Stakeholders through the Australian Exposure Draft process would be shared with the IAASB ISA 540 implementation working group. The AUASB agreed that issues raised by stakeholders as reflected in the *Comments Received and Proposed Disposition Paper* are not Australian specific and accordingly are best suited to be addressed at a global level. The AUASB further agreed that where the IAASB does not appropriately address matters raised by Australian stakeholders, the AUASB would need to work with other National Standard Setters to address provide implementation guidance.

Accordingly the AUASB agreed that ASA 540 and the related Proposed Auditing Standard ASA 2018-2 Amendments to Australian Auditing Standards would be drafted to fully align with its IAASB equivalent and brought to the 4 December 2018 AUASB meeting for approval to issue. Additionally, the AUASB requested that the ATG consider a communications plan for the issuance of the revised ASA 540 including highlighting audit quality, value of the audit and cost considerations.



Next meeting

The next regular meeting of the AUASB will be a two day meeting held in the Melbourne, on Tuesday and Wednesday, 4th & 5th December 2018, commencing at 10:00 am.

Close of Meeting

The Chair closed the meeting at 1.00 p.m.

Approval

Signed as a true and correct record.

Roger Simnett
Chair

Date: 4 December 2018