



# AUASB Board Meeting Summary Paper

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AGENDA ITEM NO.      **3(d).1**  
Meeting Date:            17 April 2018  
Subject:                    ISA 540 – Update  
Date Prepared:            9 April 2018

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Action Required

For Information Purposes Only

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## Agenda Item Objectives

To update the AUASB on the ISA 540 discussions from the March 2018 IAASB meeting.

## Update

The general consensus from the March IAASB meeting is that ISA 540 is now more understandable and readable with a much easier flow. The IAASB still has several areas that they are requesting the task-force work through and these relate to: scalability, examples demonstrating the spectrum of risk, length of the standard and professional scepticism.

The 2 areas that remain open and were subject to discussion relate to:

- Effective Date: Implementation period considered too short – strong desire to push out for a year
- Re-exposure of the document – will only be decided later in the process, with the taskforce requested to bring a paper on re-exposure criteria and history of re-exposure to the June meeting, as well as IASB re-exposure criteria

At the 7 March 2018 AUASB meeting, the AUASB raised three key matters/concerns on ISA 540. These concerns were fed-through to the Australian and New Zealand IAASB members ahead of the March IAASB meeting.

At the request of the IAASB, the ISA 540 taskforce at the March meeting made several changes to the draft ISA 540 – these changes were circulated to the IAASB and discussed by the IAASB on the last day of the IAASB meeting. Some of the changes addresses the 3 AUASBs concerns.

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1. Scalability continues to be of concern, particularly when looking at the suggested appendix 4. The intent is there, but it's not coming though.
  - Clarification of the spectrum of risk concept. Clarification that it is spectrum of IR and not spectrum of ROMM. Linkage of estimation uncertainty, complexity and subjectivity to assessment of IR and not ROMM.
  - ISA 540 isn't dealing with control risk – that is covered in ISA 315.
  - Rewording of conditionality wording to assist with scalability and linkage of entity's system of IC to *significant* accounting estimates – although this new term is being questioned and the IAASB seeks clarification
2. Documentation requirements is a significant step up. The suggested appendix 4 also demonstrates the uplift in expected documentation. This is particularly problematic for simple estimates.
  - Suggested appendix 4 – bonus example removed
  - Documentation requirements simplified/clearer and leads in with *significant* professional judgements
3. Developing an auditor's range or point estimate – seems a significant uplift in audit effort.
  - Application material included to indicate that even though the auditor has fulfilled all the requirements of the ISA, a wide range may still be appropriate and clarified why disclosures are increasingly important in these situations and added reference providing guidance that it may be important for the auditor to re-challenge whether SAAE has been obtained about reasonableness of amounts in the range.

Other significant changes made by the ISA 540 taskforce:

1. Expectations around sufficient appropriate audit evidence clarified. Emphasis is now relevancy of evidence whether conditional or contradictory
2. Clarification of work effort around significant risk relating to accounting estimates

### **Next steps:**

The next version of the draft standard will be discussed at an IAASB teleconference on 24 April 2018, with a view to approve the standard in June.

### **Material Presented**

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