



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1.3
Meeting Date:	4 December 2018
Subject:	ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> Summary of Implementation Guidance Areas
Date Prepared:	16 November 2018

Agenda Item Objectives

Summary of areas that Implementation Guidance is sought by Australian Stakeholders:

1. The role of the auditor versus management as well as the auditor's considerations in relation to developing an auditor's point estimate or range (paragraph 27(b))^{1*} including independence considerations.
2. When it is appropriate for the auditor to develop a point estimate rather than a range.
3. The interaction between a client's point estimate and an auditor's and the acceptable quantum of a range estimate in relation to materiality and how this interrelates to the identification of a misstatement.
4. How ASA 540 is applied with reference to impairment testing.
5. How ASA 540 is applied with reference to expected credit losses under IFRS 9.
6. Guidance in relation to terminology:
 - a. sufficiently address (paragraph 27(b))
 - b. extent practicable (paragraph 27(b))

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1. ^{*} When, in the auditor's judgement based on the audit evidence obtained, management has not taken appropriate steps to understand or address estimation uncertainty, the auditor shall:
(Ref: Para. A115–A117)
 - (a) Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the estimation uncertainty, and evaluate management's response(s) in accordance with paragraph 26;
 - (b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range in accordance with paragraphs 28–29; and
 - (c) Evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with ASA 265.¹

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7. Examples that demonstrate the work effort required for less complex estimates even where they are material, in contrast to estimates with a high level of estimation uncertainty which are complex and subjective.
8. Examples of the use of pricing information from third parties and audit evidence and audit evidence regarding valuation of investments based on investee financial conditions or operating results.
9. Expectations of preparers in relation to expected information and documentation.