

IAASB Project - Accounting Estimates - ISA 540
AUASB Technical Group Feedback (views may not be representative of the AUASB)

Project Objective	AUASB SMEs
<p>(i) Propose revisions to ISA 540, establishing more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional scepticism when auditing accounting estimates.</p> <p>(ii) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed in the future to address special audit considerations relevant to financial institutions to supplement the revisions to ISA 540 and oversee the development of the guidance material considered necessary.</p>	<p>Ashley / Rene</p>
AUASB Key Points	
<p>Overall comments</p> <p>The AUASB technical group considers that most of the AUASBs concerns raised on exposure of ISA 540 around: scalability, use of the three ‘buckets’ of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures, and issues around auditor’s/management’s range, have been addressed by the IAASB. The Technical Group still considers that the standard is long and complicated, but this is as a result of the nature of the subject matter.</p> <p>While scalability has been considered and addressed, the technical group considers that SMEs may still encounter difficulties when implementing the standard. There is considerable content to digest, and possibly audit work programs will need extensive rework. The Technical Group consider there to be uplift in audit effort and documentation requirements even for simple estimates – this has been reflected in agenda item 2D, examples that illustrate scalability.</p> <p>The March IAASB meeting papers are silent on due process around issuance of the standard or discussion around re-exposure.</p> <p>Proposed Effective Date: Periods ending on or after 15 December 2019.</p>	
<p><u>Key Points from the AUASB response to ED ISA 540 and IAASB summary of discussions</u></p>	
<ol style="list-style-type: none"> 1. AUASB did not support Inherent Risk (IR) low/not-low and general scalability of ED seen as an issue: <ol style="list-style-type: none"> a. IR low/non-low dropped; use of wording to indicate conditionality (eg: para 10: the degree relevant in the circumstances; para 13: the degree to which); procedures responsive to <i>reasons</i> for Risk of Material Misstatement (ROMM); explicitly stating the greater the reliance, the more persuasive the audit evidence (para 16). b. Introduction of spectrum of risk – see para 3/540 and additional application material (AM) inserted: A71-A71B and A11-A10 (lifted from draft ISA 315). c. Application material and examples to demonstrate scalability – AM A94 included to demonstrate how the extent of further procedures may be impacted. Agenda item 2D – walked through example demonstrating scalability – will be included as an appendix to ISA 540. d. Understanding business – scalability subheading and AM to demonstrate scalability now included A8A, A8B and A10. 2. AUASB did not support the concepts of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures. <ol style="list-style-type: none"> a. The three concepts of complexity, judgement (term post ED changed to subjectivity) and estimation uncertainly have been retained but not as the driver of audit procedures, but rather as key to risk assessment and identification and assessment of ROMM. 3. In relation to auditors range/point estimate, concerns around: <ol style="list-style-type: none"> a. Designation of responsibilities between auditor and management <ul style="list-style-type: none"> • Designation of responsibilities: developing an auditor’s range now brought under the heading of evaluating management’s point estimate. Application material included to demonstrate when to develop point estimate/range A126C-A129B 	

- b. Auditor's range not always within materiality
 - Application material inserted to deal with scenarios where not always within materiality. (para A134).

Changes to ED ISA 540 since December IAASB meeting (reflected in March meeting papers):

Since the December IAASB meeting, there have not been many changes to the requirements of ISA 540. Most of the changes relate to changes in application material (AM). The changes since the December meeting are mainly:

2. Tidying up and tightening of AM, additional AM and examples (on issues that had been raised by the AUASB on ED):
 - a. Agenda item 2D – example to illustrate scalability
 - b. AM – demonstrating how to apply scalability in the risk assessment phase (paras A8A and A10)
 - c. AM – where auditor prepares a range when management hasn't properly understood or addressed estimation uncertainty (paras A126A-A126B)
 - d. AM – when it's appropriate to develop point estimate/range (paras A126C-A129B)
 - e. AM – where range may exceed materiality (para A134)
 - f. Tighten up of application of professional scepticism – additional application material now included to demonstrate that auditors are not expected to specifically search for contradictory evidence (para A92E).
3. Consequential changes to other standards (ISA 200, ISA 230, ISA 260 and ISA 500)
4. Several additional requirements included in ISA 540:
 - a. At the risk assessment stage, there is a new requirement to understand controls relating to management's process for making estimates (par 10(ia))
 - b. Separate assessment of IR and CR (para 13)
 - c. Clarification of the auditor's role where management has not appropriately understood and addressed estimation uncertainty (para 17F)
 - d. Clarification of the requirements where an auditor develops their own point estimate/range (para 18C)
 - e. Uplift in documentation requirements (para 27).

Other significant actions noted in March 2018 papers – this was not a major area of concern in the AUASB submission on ED ISA 540:

1. Documentation (para 27):
 - a) Increase in requirements to document:
 - key elements of understanding entity and system of IC
 - reasons for the separate assessment of IR and CR
 - auditor's rationale for testing approach
 - auditor's response where management has not understood and addressed estimation uncertainty
 - b) Increase in application material
 - Para A158A – additional matters that may be documented where a complex model is used
 - Tighten up of application of professional scepticism – para A158B – documentation supporting evidence of the exercise of PS

AUASB influencing activities

AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.

Next steps / milestones for this project

No further information noted in the meeting papers.