



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **3.2.0**

Meeting Date: 29 October 2018

Subject: Auditing Accounting Estimates and Related Disclosures

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Proposed Type & No: Auditing Standard ASA 540

Proposed Title: *Auditing Accounting Estimates and Related Disclosures*

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LISTING OF RESPONDENTS

Short Form Name	Name	Agenda Item Reference
R1	Respondent 1 (confidential submission)	3.2.1
IPA	Institute of Public Accountants	3.2.2
ACAG	Australian Council of Auditors General	3.2.3
CPA	CPA (Australia)	3.2.4
KPMG	KPMG	3.2.5
PwC	PwC	3.2.6
EY	Ernst & Young	3.2.7

EXHIBIT 1 – RESPONSES TO SPECIFIC QUESTIONS

- (a) **Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	None Noted	-	N
IPA	None Noted	-	N
ACAG	None Noted	-	N
CPA	None Noted	-	N

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
KPMG	None noted	-	N
PwC	None noted	-	N
EY	None noted	-	N

(b) Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	None Noted	-	N
IPA	None Noted	-	N
ACAG	None Noted	-	N
CPA	None Noted	-	N
KPMG	A blurring of the lines between the auditor's and management's responsibilities could occur where the auditor is required by paragraph 27(b) to develop a point estimate or range. This may conflict with legal requirements for the auditor to be independent in fact and appearance. Paragraph A116 refers to this possibility. However, the standard currently leads to a modified opinion if the auditor cannot develop a point estimate or range without compromising independence. A more proportionate outcome could be obtained if paragraph 27(b) was amended.	Testing how management made the estimate (paragraph 18(b)), is one of these testing options. Under this testing option, and where in the auditor's judgement, management has not taken appropriate steps to understand or address estimation uncertainly, the auditor is directed to paragraph 27. In the IAASB's Basis of Conclusions, the IAASB recognised that to further address concerns raised on ED about the auditor assuming the responsibilities of	N

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Respondent Comment	Commentary	Change to be made to Doc? Y/N
<p>As set out below, we have significant concerns with paragraph 27(b), which prescribes one specific response to circumstances outside the auditor’s control, over and above additional procedures required by paragraph 27(a).</p> <p><i>In relation to sub paragraph 27(a):</i></p> <p>While subparagraph 27 (a) emphasises the importance of management’s responsibility to perform the necessary procedures to understand and address estimation uncertainty, we have the following concerns:</p> <ul style="list-style-type: none"> • We have reservations about the effectiveness of this requirement because management, as the preparers of financial statements including estimates, are not obliged to comply with auditing standards but with accounting standards. The requirement for management to understand and address estimation uncertainty does not currently reside within the accounting standards. Thus, the requirement on the auditor to request “management to perform additional procedures to understand estimation uncertainty or to address it” is not backed by a similar obligation on the preparer. We recommend the AUASB engage in discussions with the AASB to insert a similar requirement to the same effect within the accounting standards. • Without an equivalent requirement on management, paragraph 27(a) is essentially redundant and requires an additional work effort from the auditor which could be avoided by defaulting to paragraph 27(b). 	<p>management, a requirement was added for the auditor to first request management to perform additional procedures (para 27(a)), additionally the IAASB added the application paragraphs in relation to assessment of independence. In the overall evaluation and based on audit procedures performed, where the auditor is unable to obtain sufficient appropriate audit evidence, the auditor evaluates the implications on the audit or the auditor’s opinion.</p> <p><i>Concerns in relation to paragraph 27(a):</i></p> <p>The ATG discussed the concerns raised in relation to paragraph 27(a) with the AASB technical group. The AASB technical group commented that the requirement for management to understand and address estimation uncertainty is guided by the fundamental qualitative characteristics of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, being relevance and faithful representation.</p> <p>Additionally, AASB 101 <i>Presentation of Financial Statements</i>, requires financial statements to present fairly the financial position, financial performance and cash flows of an entity. Furthermore, paragraph 17 of AASB 101 requires additional disclosures to be provided when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.</p>	

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Respondent Comment	Commentary	Change to be made to Doc? Y/N
<p><i>In relation to sub paragraph 27(b):</i></p> <ul style="list-style-type: none"> • We believe the auditor’s objective is to independently challenge the reasonableness of management’s work to address estimation uncertainty, as opposed to developing the estimate in cases where management’s response is insufficient. • One challenge that may arise is a blurring of the lines between the auditor’s and management’s responsibilities with management’s acceptance of the auditors’ estimate over their own. A suggestion that the auditor’s independence in fact or appearance may be compromised appears to be an unacceptable outcome of this requirement. Paragraph A116 recognises this potential conflict but A117 makes it clear that a modified opinion would be the outcome if the auditor cannot develop a point estimate or range. This appears to be an overly strict outcome. • In our view paragraph 27(b) should acknowledge there are other ways to gather the level of audit evidence required for an area of high estimation uncertainty, as set out under paragraph 18. • Also, it is unclear in this context what would constitute a misstatement of the estimate, and guidance would be useful. For example, it would be beneficial to clarify whether there is a presumption the auditor’s estimate could be sufficiently informed such that a misstatement could be identified, posed to management and requested to be corrected. • We seek clarification about the meaning of “to the extent practicable” and suggest the inclusion of examples of instances when it is 	<p><i>Concerns in relation to paragraph 27(b):</i></p> <p>Concerns that paragraph 27(b) and related application material could lead to the auditor to assume the responsibilities of management, or otherwise raise concerns about the auditor’s independence were raised at the time of the IAASB ED. The ATG’s review of IAASB meeting papers on this matter notes that the requirement in paragraph 27(b), reflects the requirements contained in extant ISA 540 (paragraph 16). Additionally, while independence has always been a requirement, it has now been elevated and is now explicitly included in the standard as application material in paragraph A116. Paragraph A117 explains that where the auditor cannot develop a point estimate or range, the auditor evaluates the implications for the audit or the auditor’s opinion in accordance with paragraph 34. Paragraph 34 requires that where sufficient appropriate audit evidence cannot be obtained, the auditor evaluates the implications for the audit or the auditor’s opinion.</p> <p>We acknowledge some of the implementation challenges raised by KPMG and as noted in question (e) above, we aim to address these challenges through post implementation guidance for example providing guidance with reference to the terms used in paragraph 27(b) ‘<i>sufficiently address</i>’ and ‘<i>extent practical</i>’. Through the Chair, the AUASB will be encouraging the IAASB in the first instance, to address</p>	

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	<p>impracticable. This could be similar to the guidance in ASA 501 Audit Evidence—Specific Considerations for Inventory and Segment Information. In the absence of a clear requirement capable of consistent application, we are concerned that variability of practice will occur, with some auditors determining that independence considerations allow the development of a point estimate, and others proceeding to qualify the audit opinion.</p> <ul style="list-style-type: none"> • Additionally, we seek clarification about the meaning of “sufficiently address”, and the intended level of auditor’s discretion when applying the requirements of this paragraph. For example, where management’s estimate is deemed to be materially fairly stated, but the auditor judges that management’s process for developing the estimate did not sufficiently address estimation uncertainty, it would appear to be unnecessary to require the auditor to request management to perform additional procedures, to evaluate these, and then to develop an auditor’s point estimate or range. 	<p>these post implementation issues at a global level. These issues are not Australian specific and accordingly should be dealt with at the IAASB level. If such guidance is not developed by the IAASB, the AUASB could work on something in conjunction with other national standard setters.</p> <p><i>Compelling Reason assessment:</i></p> <p>The ATG has considered KPMG’s comments and notes that no other stakeholders have raised similar views with reference to potential compelling reason modifications.</p> <p>The compelling reasons test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with:</p> <p>(a) The Australian regulatory arrangements; or (b) Principles and practices that are considered appropriate in Australia (including in the use of significant terminology).</p> <p>The criteria that have to be met before the standard is modified is contained within paragraphs 11 and 12 of <i>Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB) (August 2014)</i>.</p>	

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
		Having considered content of the above document, the ATG does not consider there to be a compelling reason to modify the international standard.	
PwC	None noted	-	N
EY	None noted	-	N

(c) **Are there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or does, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	None Noted	-	N
IPA	None Noted	-	N
ACAG	None Noted	-	N
CPA	None identified	-	N
KPMG	None identified	-	N
PwC	None noted	-	N
EY	None noted	-	N

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- (d) **What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:**
- (i) **Where those costs are likely to occur;**
 - (ii) **The estimated extent of costs, in percentage terms (relative to audit fee); and**
 - (iii) **Whether expected costs outweigh the benefits to the users of audit services?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	Without having undertaken an engagement under the new standard it is not possible to quantify any additional costs but the increased granularity and components of evaluating significant estimates is highly likely to lead to increased costs.	Noted	N
IPA	The IPA expects that the more comprehensive documentation requirements of the revised standard could potentially be the source of additional audit costs, however the IPA does not consider the documentation requirements unreasonable and arguably are consistent with the type of documentation that should have always been prepared.	Noted	N
ACAG	ACAG expects there will be additional costs of documentation to comply with the requirements in para 39, specifically in relation to: <ul style="list-style-type: none"> • how the auditor applies their professional scepticism and • assessing, evaluating and documenting the relevance and reliability of external information sources. <p>Although likely to lead to an increase in audit effort and therefore costs, ACAG believes the expanded documentation requirements will help</p>	Noted	N

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	<p>ensure audit documentation is sufficiently robust to support the auditor's assessment and conclusion.</p> <p>Apart from the additional costs outlined above for the incremental effort required, ACAG does not anticipate there will be any significant costs arising from compliance with the changes to the requirements of the proposed standard.</p>		
CPA	<p>We do anticipate an increase in work effort to meet the requirements in the proposed standard, however we note that this work effort is scalable. The extent of procedures should be responsive to the level of inherent risk, being a function of estimation uncertainty, complexity, subjectivity or other inherent risk factors, and control risk, therefore it should not exceed the work necessary to obtain sufficient appropriate audit evidence.</p>	Noted	N
KPMG	<p>We expect to incur costs associated with training and coaching auditors to apply the changes in requirements. In light of the expectation that ASA 540 will increase the estimates subject to audit, the sufficiency and / or appropriateness of audit evidence to be obtained, and the documentation of the auditor's considerations, we expect costs on audits to increase. It is difficult to estimate the extent of costs or the proportion of audit fee, as each audit will be impacted in a different manner depending on the associated risks. We consider that the increase in costs will generally benefit audit quality, consistent with the intention of the AUASB and IAASB.</p> <p>However, we note that unnecessary incremental costs may be incurred where the auditor is required to comply with paragraphs 27(a) and 27(b). Firstly, the auditor may perform procedures in accordance with paragraph</p>	See comments under (b) above.	N

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	27(a), and still be required to develop a point estimate or range; secondly, the only response contemplated by paragraph 27(b) is the development of a point estimate or range, which can be a costlier procedure than the alternatives in paragraph 18.		
PwC	The expectation is that due to the substantial revision of the standard there will be additional costs. It is difficult to assess the extent of the costs at this stage, but these will include initial implementation costs as well as potentially increased audit effort on some audits.	Noted	N
EY	No comments noted	-	N

- (e) **What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 540 (specific questions/examples would be helpful).**

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	The interaction between a client's point estimate and an auditor's range estimate, and the acceptable quantum of a range estimate in relation to materiality.	Paragraphs A125, A139-A144 of ED ASA 540 provides guidance in relation to this matter. The ATG will take this matter into account when post implementation guidance is considered.	N
IPA	The IPA anticipates auditor will have issues with the new expected loss model in AASB 9 <i>Financial Instruments</i> and as such believes it would be useful for implementation guidance in relation to the audit of expected	The ATG will take this matter into account when post implementation guidance is considered.	N

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
	<p>credit losses including the use of the provision matrix approach under the simplified approach.</p> <p>The other area the IPA believes implementation guidance would be useful is in relation to impairment testing particularly when fair values less cost of disposal is used.</p>		
ACAG	<p>ACAG would like the AUASB to issue, in conjunction with the release of ASA 540, implementation guidance to provide clarity on the auditor's point estimate, the auditor's range and the multiples of materiality, specifically:</p> <ul style="list-style-type: none"> • when it would be appropriate for the auditor to develop a point estimate instead of a range and • the application of multiples of materiality and the how this interrelates to the identification of a misstatement. <p>ACAG believes it would be useful for the AUASB to provide additional guidance to help auditors determine when it is not 'practicable' to develop a point estimate or range, as this term is not within the extant standard.</p>	The ATG will take these matters into account when post implementation guidance is considered.	N
CPA	<p>Some assistance by way of implementation guidance or technical Q&A would be helpful. In particular, using examples which demonstrate:</p> <p>The work effort required for less complex estimates, even if they are very material, in contrast to estimates with a high level of estimation uncertainty, which are complex and subjective.</p>	The ATG will take these matters into account when post implementation guidance is considered.	N

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	<p>Whether significant risks include estimates on the extremes of the spectrum of inherent risk, that is, those which are material but not complex or not as material but highly complex.</p> <p>Diagrams and flowcharts of the decision-making process followed to arrive at the nature and extent of audit procedures required for different types of estimates could also be helpful.</p>		
KPMG	<p>In our view it would be beneficial for the AUASB to consider issuing guidance similar to that included in PCAOB Release No. 2017-002 issued 1 June 2017 in relation to:</p> <ul style="list-style-type: none"> • Examples of Use of Pricing Information from Third Parties and Audit Evidence; and • Audit Evidence Regarding Valuation of Investments Based on Investee Financial Condition or Operating Results. <p>The proposed inclusions in AS 2501 Auditing Accounting Estimates, Including Fair Value Measurements and AS 1105 Audit Evidence respectively, provide guidance on two aspects of estimation complexity that Australian auditors would find relevant and useful in interpreting and applying ASA 540.</p>	The ATG will take these matters into account when post implementation guidance is considered.	N
PwC	We believe that additional guidance on the expected information and documentation under the new standard for those responsible for the accounting estimate and disclosures would be beneficial.	The ATG will take these matters into account when post implementation guidance is considered.	
EY	No comments noted	-	N

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- (f) **The AUASB now seeks specific stakeholder feedback on the following requirements and related application material to the proposed standard:**

Paragraphs 27: *Management’s Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty*

	Respondent Comment	Commentary	Change to be made to Doc? Y/N
R1	It is unclear how or why the auditor would conclude that management had not taken sufficient steps with regard to estimation uncertainty if their estimate was within the auditor’s acceptable range.	Paragraph A109 provides guidance as to relevant considerations regarding whether management has taken appropriate steps to understand and address estimation uncertainty.	N
IPA	The IPA does not find the guidance in relation to ASA 540.27 particularly useful. The guidance is vague and does not provide a clear course of action for the auditor. Furthermore, the guidance barely deals with disclosure issues.	The ATG considers that the guidance under paragraphs A115-A117 provides a clear course of action for the auditor.	N
ACAG	ACAG is supportive of the enhanced requirements on what further audit procedures are required when management has not taken the appropriate steps to address estimation uncertainty and agrees with the guidance in para A116 that in doing so, the auditor should ensure independence requirements are not compromised. ACAG believes it would be useful for the AUASB to provide additional guidance to help auditors determine when it is not ‘practicable’ to develop a point estimate or range, as this term is not within the extant standard.	The ATG will take the suggestion into account when post implementation guidance is considered.	N
CPA	We are supportive of the inclusion in this requirement for a request to management to perform additional procedures if they have not properly understood or addressed estimation uncertainty. Then only if management’s response is insufficient, is the auditor expected to develop their own point	-	N

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
	estimate or range. This is a more reasonable process than that proposed in the earlier IAASB exposure draft.		
KPMG	See b above.	See b above	N
PwC	We believe that the matters raised by the AUASB have been addressed in the standard and support that the standard requires the appropriate level of professional scepticism.	-	N
EY	The Director's responsibility in relation to the preparation and fair presentation of the financial report include the responsibilities to address estimation uncertainties by selecting an appropriate point estimates and by developing related disclosures about estimation uncertainties. We are supportive of distinguishing this responsibility in ED-03/18 in the definition of the Auditor's point estimate or auditor's range as one developed in evaluating management's point estimate and requirement in paragraph 27(a) to request management to perform additional procedures.	-	N

(g) **The AUASB now seeks specific stakeholder feedback on the following requirements and related application material to the proposed standard:**

Paragraphs 30: *Other Considerations Relating to Audit Evidence*

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	None Noted	-	N
IPA	None Noted	-	N
ACAG	ACAG agrees with the requirements in para 30 as they are broadly consistent with the requirements in paras 8(c) and A48 of the extant ASA 500 Audit Evidence. ACAG believes the insertion of para 30 crystalizes the requirements to evaluate the expert's work as audit evidence, which may not have been sufficiently performed and documented previously.	-	N
CPA	We are supportive of the additional requirements which link to ASA 500, including for evaluation of management's experts work.	-	N
KPMG	We are concerned that paragraph 30 together with A130 and A131 require the auditor to request a management expert to comply with paragraph 27 and could be difficult to enforce in practice. As above, without an equivalent requirement on the management expert, in our view paragraph 27(a) is essentially redundant and the likely outcome is that the auditor will default to paragraph 27(b).	From the ATG's review of the basis of conclusions behind the final ISA 540, the ATG note that it is not the IAASB's intention that the auditor addresses every single requirement in paragraphs 21-29 when using the work of a management's expert but that the auditor may consider the matters described in paragraphs 21-29 in complying with the existing requirements of paragraph 8(c) of ASA 500 as referred to in A131.	N
PwC	We believe that the matters raised by the AUASB have been addressed in the standard and support that the standard requires the appropriate level of professional scepticism.	-	N
EY	None noted	-	N

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- (h) **The AUASB now seeks specific stakeholder feedback on the following requirements and related application material to the proposed standard:**

Paragraph 33: Overall Evaluation Based on Audit Procedures Performed

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	The paragraph appears redundant as considering the evidence and its sufficiency as part of assessing the entire body of audit work therefore why is it expressly called out for estimates.	The IAASB's Basis of Conclusions notes that inspection findings raise significant concerns about audit quality for accounting estimates, and a need to address this by fostering a more independent and challenging sceptical mindset in auditors. The IAASB considers that the placement of the stand back provision in ED ASA 540 will foster improved application of professional scepticism.	N
IPA	The IPA does not believe ASA 540.33 and related guidance adequately address the issue of an overall evaluation of an accounting estimate in terms of the macro-economic environment, the industry and the client's capabilities.	The guidance in paragraph A137 links through to the risk assessment procedures where these factors would ordinarily be considered.	N
ACAG	ACAG agrees with the requirements in para 33 as they are broadly consistent with the requirements in paras 25-26 of the extant ASA 330 <i>The Auditor's Response to Assessed Risks</i> . ACAG believes that although 'stand back' is likely to be performed in practice, the explicit requirement to do so, will help ensure the documentation supports the auditor's assessment.	-	N
CPA	We are supportive of this requirement to "stand back" and make an overall evaluation of accounting estimates.	-	N
KPMG	No further comments - supportive	-	N

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
PwC	We believe that the matters raised by the AUASB have been addressed in the standard and support that the standard requires the appropriate level of professional scepticism.	-	N
EY	<ul style="list-style-type: none"> We support the consideration of all relevant audit evidence, whether corroborative or contradictory, as required in paragraph 34 of ED-03/18. However, we believe the last sentence of paragraph 34 appears to be misplaced because it addresses the implications of the auditor not obtaining sufficient appropriate audit evidence. These implications seem to be more closely related to evaluations performed in paragraph 33(a) and 33(b) of ED-03/18. We do not believe the determination of whether disclosures beyond those required by the financial reporting framework, which is currently included in paragraph 36 of ED-03/18, should be included in the requirements. Including this evaluation in the requirements, in our view, de-emphasizes the importance of the auditor's evaluation of whether the disclosures are in accordance with the requirements of the financial reporting framework, which we believe is challenging in itself. <p>Because paragraphs 13 and 14 of ASA 700 (Revised) address the auditor's evaluation of fair presentation of the financial statements, including the disclosures, we believe it would be more appropriate for the application material in ED-03/18 to address and explain the relationship of the required overall evaluation of estimates and related disclosures to the evaluation of fair presentation in ASA 700 (Revised). In this regard, we believe such application material would be best</p>	<ul style="list-style-type: none"> The ATG considers that the placement of this last sentence of paragraph 34, is appropriately linked to the whole of paragraph 33. While ASA 700 essentially contains an overall stand-back in relation to overall fair presentation, the IAASB in all open projects, is introducing these stand-back provisions. The Basis of Conclusions notes that inspection findings raise significant concerns about audit quality for accounting estimates, and a need to address this by fostering a more independent and challenging sceptical mindset in auditors. The IAASB considers that the placement of the stand back provision in ED ASA 540 will foster improved application of professional scepticism. 	

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Respondent Comment		Commentary	Change to be made to Doc? Y/N
	placed in support of the overall evaluation in paragraph 35 of ED-03/18.		

(i) **Are there any other significant public interest matters that stakeholders wish to raise?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N
R1	None Noted	-	N
IPA	None Noted	-	N
ACAG	Overall, ACAG is supportive of the proposed standard. We believe the additional application guidance and worked examples referred above would help auditors comply with the requirements of ASA 540.	The ATG will take these matters into account when post implementation guidance is considered.	N
CPA	We do not wish to raise any public interest matters.	-	N
KPMG	No further comments	-	N
PwC	None noted	-	N

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EXHIBIT 2 – OTHER GENERAL COMMENTS

Item No.	Ref Para No.	Respondent Comment		Commentary	Change to be made to Doc? Y/N
1		IPA	Inherent Bias – the standard manifests an inherent bias towards consistency in assumptions and basis of estimates. It is the IPA’s contention that audit failure is often a result of accepting the estimate based on consistency with prior years when in fact the assumptions should change regularly. Risk-free rates, WACC, growth rates among other assumptions should change yearly with changes in the macro-economic conditions, industry and client specific factors.	There are several requirements (paragraphs 23(a), 24(a), 25(a)) and guidance (paragraph A95) that specifically address changes from prior years in relation to methods, assumptions and data.	N
2		IPA	Management Bias – The IPA does not believe management bias is properly dealt with. The focus is on evidence of management bias in the determination of accounting estimates in particular the selection of assumptions. The IPA is of the view the standard should acknowledge that inherent risk related to a motive to misstate by management arising from factors such as remuneration arrangements. The IPA believes such inherent risk should affect the nature, extent and timing of audit procedures carried out in relation to accounting estimates and the current structure of ASA 540 does not adequately address such considerations.	The ATG considers that management bias is considered extensively throughout the standard. The standard has specific requirements in relation to management bias considerations in respect of methods, assumptions and data (paragraphs 23(b), 24(b), 25(b)), as well as considering indicators of possible management bias (paragraph 32). Additionally, there is extensive application material (paragraphs A96, A133-A135). There is also application material linking ASA 540 to ASA 240 in relation to management bias and fraud.	N

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3		IPA	Disclosures – currently the quality of disclosures in relation to estimation uncertainty and management judgements are variable and some of the responsibility lays with auditors not sufficiently understanding their obligations in regard to such disclosures. ASA 540 while it does acknowledge these obligations, it does not provide much guidance in this area. The IPA believes ASA 540 should include more comprehensive guidance in relation to the audit of disclosures relating to estimation uncertainty and management judgements including the application of materiality to such disclosures.	The ATG will take into account when post implementation guidance is considered	N
4		IPA	Quality of Application Guidance – The IPA is disappointed that the application guidance included in ASA 540 is mainly in the nature of explanatory material and does not provide much in the way of practical guidance. In addition, the guidance is often not definitive and in essence requires the exercise of auditor judgement.	The ASAs are a set of principles-based standards characterised by the exercise of auditor's professional judgement, meaning that the standards should be able to deal with evolving business environments and financial reporting frameworks. As noted by question (e) above, the intention of the AUASB is to work through what post implementation guidance is required by stakeholders.	N

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5		EY	We are concerned about changing the criterion for the auditor’s evaluation of disclosures related to accounting estimates to “reasonable” from “adequate”. Although we conceptually agree with the explanation provided in paragraph 9, we believe such a definition leads to the need for the AUASB to further consider whether the term “reasonable” should be replaced with the clearer terminology in the context of disclosures about the accounting estimates.	<p>The ATG has reviewed the IAASB’s Basis for Conclusions and notes that the IAASB recognises a degree of inconsistency in the language of the standards but decided not to make conforming amendments at this time, but rather to consider the need for such amendments, as part of the post-implementation review of the auditor reporting standards. ED ASA 540 paragraphs A12-A13 does provide an explanation of reasonable and how this relates to appropriate.</p> <p>The ATG could consider whether post implementation guidance in relation to this matter would be helpful.</p>	N

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		<p>Implications for the auditor’s evaluation of misstatements in disclosures - Paragraphs A17 of ASA 450, and A3 and A7 of ASA 705 (Revised) guide the auditor in evaluating whether misstatements in disclosures are material. This guidance, referenced in ED-03/18 in paragraph A142, speaks to the appropriateness, accuracy and adequacy of disclosures, and it is unclear how the AUASB’s proposed change in ED-03/18 to evaluate their “reasonableness” affects the auditor’s evaluation of material misstatements in accordance with ASA 450. This disparity in terminology runs the risk of the auditor making inappropriate judgments about whether the financial statements are materially misstated. As expressed, we believe the terminology for evaluation of disclosures, if changes are pursued in conjunction with ED-03/18, needs to be aligned across the ASAs, in particular across ED-03/18, ASA 450, ASA 700 (Revised) and ASA 705 (Revised). Accordingly, additional guidance is required to support the conforming amendment proposed to paragraph 13 (c) to read “the accounting estimates and related disclosures are reasonable”.</p>		

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