



15 October 2018

The Chair
Australian Auditing and Assurance Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Professor Simnett

Request for Comment
ED 03/18 Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures and
ED 04/18 Proposed Auditing Standard ASA 2018 -2 Amendments to Australian Auditing Standards

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on exposure drafts 03/18 *Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures* and 04/18 *Proposed Auditing Standard ASA 2018 -2 Amendments to Australian Auditing Standards*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG's comments are primarily in the context of the public sector, which reflects ACAG's significant experience and involvement in the sector.

Overall ACAG agrees with the changes within ED 03/18 and ED 04/18 and acknowledge that the proposed standards have incorporated the main concerns raised by respondents from the original exposure draft. We have, however, identified some areas where we believe the AUASB should consider providing guidance to help operationalise and ensure compliance with, the requirements within the proposed standard.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink that reads 'Richardson'.

Andrew Richardson
Chairman
ACAG Audit Standards Committee

Specific Matters for Comment

ED 03/18: Proposed Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures*

1. 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?

ACAG makes no comment on this matter.

2. 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?

ACAG is not aware of any such laws and regulations.

3. Are there 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?

ACAG does not believe there are principles or practices that prevent or impede the application of, or conflict with, the proposed standard.

4. 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:

- (a) Where those costs are likely to occur, compliance costs?**
- (b) The estimated extent of costs, in percentage terms (relative to audit fee); and**
- (c) Whether expected costs outweigh the benefits to the users of audit services?**

ACAG expects there will be additional costs of documentation to comply with the requirements in para 39, specifically in relation to:

- how the auditor applies their professional scepticism and
- assessing, evaluating and documenting the relevance and reliability of external information sources.

Although likely to lead to an increase in audit effort and therefore costs, ACAG believes the expanded documentation requirements will help ensure audit documentation is sufficiently robust to support the auditor's assessment and conclusion.

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.

5. 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).

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:

- 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.

6. Over the course of the development of the IAASB's ISA 540, the AUASB discussed a number of issues that were raised by Australian stakeholders at various feedback sessions. The AUASB provided feedback on these matters directly to the IAASB. The IAASB has sought to address these issues in the development of the final ISA 540 that the AUASB now exposes as ED 03/18. Accordingly, the AUASB now seeks specific stakeholder feedback on the following requirements and related application material to the proposed standard:

(a) Paragraph 27: Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

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.

(b) Paragraph 30: Other Considerations Relating to Audit Evidence

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.

(c) Paragraph 33: Overall Evaluation Based on Audit Procedures Performed

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 *The Auditor’s Response to Assessed Risks*. 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.

7. Are there any other significant public interest matters that stakeholders wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

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.

Specific Matters for Comment

ED 04/18: Proposed Auditing Standard ASA 2018-2 *Amendments to Australian Auditing Standards*

1. 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?

ACAG makes no comment on this matter.

2. 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?

ACAG is not aware of any such laws and regulations.

3. Are there 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?

Overall, ACAG does not believe there are principles or practices that may or do prevent or impede the application of, or conflict with the proposed standard. However, we highlight the following references in the proposed amendments which do not appear to be consistent with requirements in the proposed ASA 540:

- para 7 (ASA 200) refers to 'ASA 540....para 15' which we believe should be 'ASA 540....para 16'
- para 10 (ASA 230) refers to 'ASA 540....para 37' which we believe should be 'ASA 540....para 39'
- para 15 (ASA 260) refers to 'ASA 540...para 36' which we believe should be 'ASA 540....38'
- para 45 (ASA 701) refers to 'ASA 540....para 15' which we believe should be 'ASA 540....16(a)'.

In addition to the above, the amendments proposed to:

- a) ASA 240 in paras 11-12 do not appear to be correct:
 - para 11 refers to 'Existing para A48' which we believe should be 'Existing para A47'
 - para 12 refers to 'Existing footnote 20' which we believe should be 'Existing footnote 18'.
- b) ASA 500 in para 33 do not appear to be correct:
 - 'See ASA 330, para 6' which we believe should be 'See ASA 330, para 7'
 - 'See ASA 540, para 29' which we believe should be 'See ASA 540, para 30'.

In relation to the proposals to extend ASA 500, ACAG recommends the inclusion of an introductory sentence that links the concept of 'information obtained from other sources' within extant 5c) to the proposed definition of 'external information source'.

4. 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:

(a) Where those costs are likely to occur;

(b) The estimated extent of costs, in percentage terms (relative to audit fee); and

(c) Whether expected costs outweigh the benefits to the users of audit services?

Apart from the additional costs outlined below 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.

ACAG expects there will be additional costs of documentation to comply with the requirements in para 39, specifically in relation to:

- how the auditor applies their professional scepticism and
- assessing, evaluating and documenting the relevance and reliability of external information sources.

Although likely to lead to an increase in audit effort and therefore costs, ACAG believes the expanded documentation requirements will help ensure audit documentation is sufficiently robust to support the auditor's assessment and conclusion.

5. Are there any other significant public interest matters that stakeholders wish to raise?

ACAG is not aware of any other significant public interest matters.