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Prof Roger Simnett
The Chair
Auditing and Assurance Standards Board
PO Box 204, Collins St West
Melbourne, VIC 8007
Australia

On-line submission: www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx

Dear Roger

Submission on Exposure Draft ED 03/18 Proposed Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures*

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the proposed auditing standard ASA 540 *Auditing Accounting Estimates and Related Disclosures*, as we consider that it addresses the need for a more robust audit approach for complex estimates whilst still allowing for a proportionate scalable audit response to less complex estimates.

Consultation questions and responses

- 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?**

No omissions noted.

- 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?**

None identified.

- 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?**

None identified.

- 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?

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.

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

Some assistance by way of implementation guidance or technical Q&A would be helpful. In particular, using examples which demonstrate:

- 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.
- 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.

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.

- 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

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 estimate or range. This is a more reasonable process than that proposed in the earlier IAASB exposure draft.

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

We are supportive of the additional requirements which link to ISA 500, including for evaluation of management's experts work.

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

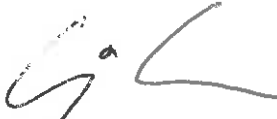
We are supportive of this requirement to "stand back" and make an overall evaluation of accounting estimates.

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

We do not wish to raise any public interest matters.

If you require further information on our views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit & Assurance, on +61 3 9606 5183 or at claire.grayston@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'CL' or similar initials, written in a cursive style.

Craig Laughton
Executive General Manager Policy, Advocacy & Public Practice