



The Chair
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne VIC 8007

16 October 2018

Dear Prof Simnett

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

We appreciate the opportunity to comment on the above mentioned Exposure Draft.

We support the proposed standard and the AUASB's policy to only amend the ISAs when there are compelling reasons to do so.

We have included our responses to the specific questions included in the Request for Comment in the Appendix to this letter.

We would be pleased to discuss our comments with you. Please contact me on (03) 8603 3285 should you require any further information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Valerie Clifford', is written over a light blue circular stamp.

Valerie Clifford
Assurance Risk & Quality Leader



Response to the Request for Comments questions: ED 03/18

- 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?**

Yes, we believe the proposed standard takes into account the applicable laws and regulations. We are not aware of any references to relevant laws or regulations that have been omitted.

- 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 noted.

- 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 noted.

- 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 the costs, in percentage terms (relative to audit fee); and**
- c) **Whether expected costs outweigh the benefits to the users of audit services?**

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.

- 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)?**

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.

- 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***
- b) ***Paragraph 30: Other Considerations Relating to Audit Evidence***
- c) ***Paragraph 33: Overall Evaluation Based on Audit Procedures Performed***

We believe that the matters raised by the AUASB have been addressed in the standard and support that the standard requires the appropriate application of professional scepticism.

- 7. Are there any other significant public interest matters that constituents wish to raise?**

None noted