

The Chair
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007
Australia

15 October 2018

Dear Roger,

Exposure Draft ED 03-18 proposed re-issuance of 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

Ernst & Young Australia welcomes the opportunity to offer its views on the exposure draft, Proposed Auditing Standard ASA 540 (Revised) Auditing Accounting Estimates and Related Disclosures (ED 03/18) and Proposed Auditing Standard ASA 2018-2 Amendments to Australian Auditing Standards (ED 04/18), issued by the Auditing and Assurance Standards Board (AUASB).

Overall, we support the proposed amendments outlined in ED-03/18 and ED-04/18 which arise from changes made by the International Auditing and Assurance Board to ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures. These changes are aimed at enhancing the current ASA 540 to reflect the evolving nature of financial reporting standards that address accounting estimates, as well as the auditing challenges that arise therefrom. We believe that the auditing and assurance standards in Australia should be closely aligned to and consistent as possible with its international equivalents.

Our views on the AUASB's specific questions in relation to ED-03/18

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
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?
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?

We believe that all applicable laws and regulations have been appropriately addressed in the proposed ED-03/18. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may 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 this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
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)
6. The 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; Paragraph 30: Other Considerations Relating to Audit Evidence; and (c) Paragraph 33: Overall Evaluation Based on Audit Procedures Performed

With regard to paragraph 27 and related application guidance on Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

- 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.

With regard to the enhancements to the auditor's work effort for disclosures related to accounting estimates, we have the following specific concerns:

- 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.
- Implications for the auditor's evaluation of misstatements in disclosures - Paragraphs A17 of ASA 450¹, and A3 and A7 of ASA 705 (Revised)² 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)³. 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".

With regard to Overall evaluation based on audit procedures performed, our significant views and areas of concern are:

- 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.

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

¹ ASA 450, Evaluation of Misstatements Identified during the Audit

² ASA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

³ ASA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

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 placed in support of the overall evaluation in paragraph 35 of ED-03/18.

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

In our view there are no other significant public interest matters to raise.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia. We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact Kathy Parsons (Kathy.Parsons@au.ey.com or on (02) 8295 6882).

Yours sincerely



Kathy Parsons
Partner