



<b>Subject:</b>	<b>Agenda for the 94th meeting of the AUASB</b>
<b>Venue:</b>	<b>Fraser and King Room</b> <b>CA ANZ, Level 9, 33 Erskine Street, Sydney NSW 2000</b>
<b>Time:</b>	<b>Tuesday, 18 July 2017 from 8.30 a.m. to 5.00 p.m.</b>

\* Agenda item 1 – 6 and 11 are closed sessions

Time	Agenda Item No.
8.30am.	<b>1. Preliminary Session*</b>
9.00am	<b>2. AASB-AUASB Strategy*</b>
9.15am	<b>3. Update from IFAC President*</b>
10.15am	<i>Break</i>
10.30am	<b>4. Update from June 2017 IAASB and NSS Meeting*</b>
11.00am	<b>5. ASIC Inspection Program Update*</b>
12.00pm	<b>6. AUASB Charter and Due Process Document*</b>
<b>12.30pm</b>	<b>Lunch</b>
1.30pm	<b>7. ISA 540 Submission</b>
3.00pm	<b>8. Auditor Reporting Update</b>
3.30pm	<i>Break</i>
3.45pm	<b>9. Other Business</b>
4.00pm	<b>10 AUASB 2017-18 Work Plan</b>
4..45pm	<b>11 Review*</b>
5:00p.m.	<b>Close</b>

**NOTE:** The running order and time allocated to agenda items is subject to change prior to and during the course of the meeting: It is advisable to visit the website prior to 18 July 2017 to confirm whether the anticipated running order remains as indicated above:

Those wishing to attend the public sessions of the meeting are requested to register in advance by sending an email to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)



# AUASB Board Meeting Summary Paper

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AGENDA ITEM NO. **7**

Meeting Date: 18 July 2017

Subject: ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*

Date Prepared: 11 July 2017

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☒ Action Required

☐ For Information Purposes Only

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## Agenda Item Objectives

To obtain AUASB input into the draft response to the IAASB ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*.

## Background

In April 2017, the IAASB released for comment ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*. Responses for this ED are due 1 August 2017. The timing of the release of the final standard is dependent on the comments received, and won't be known until later this year, however is likely to be in early / mid 2018.

*Strategy to gather stakeholder feedback as per project plan:*

1. Conduct 3 roundtables (Brisbane, Melbourne and Sydney)
2. Meet with Regulators
3. Liaise with NZAuASB

## Progress made to date:

1. Roundtables:
  - Brisbane Roundtable held on 8 May 2017: 15 external attendees, represented by: big 4, mid-tier, CPA and QAO.
  - Melbourne Roundtable held on 19 May 2017: 16 external attendees represented by big 4, mid-tier, ACNC, CAANZ, CPA and VAGO.
  - Sydney Roundtable held on 5 June 2017: in excess of 20 external attendees represented by big 4, mid-tier, ACNC, CAANZ, CPA and AONSW.

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

2. Liaised with NZAuASB technical team. NZ issues similar to Australia. Expecting draft response to raise similar matters.
3. Received Comment letters:
  - Deloitte – refer agenda item 7.2. Approach under *matters to consider* below has been discussed and agreed with Gareth Bird.
  - AICD – refer agenda item 7.3. Key points raised already addressed in draft AUASB submission:
    - i. overall increase in audit effort
    - ii. auditor re-performance
    - iii. scalability across entities and estimates
    - iv. length and usability of standard
    - v. impact on preparers – through financial reporting standards
4. Response drafted – refer agenda items 7.4 and 7.5

Next Steps:

1. Continued liaison with NZAuASB and co-ordinate respective responses. Chair and Technical Director to attend NZAuASB meeting 26 July 2017.
2. Discussions with regulators.

**Matters to Consider/input requested:**

1. Specific feedback on cover letter (AI 7.4)
2. Specific feedback on draft response (AI 7.5)
3. Specific matters as highlighted on the annotated (AUASB notes included) Deloitte comment letter (AI 7.2):
  - a. question 2 page 3 (professional scepticism);
  - b. question 4 page 5 (not low IR); and
  - c. question 7 page 7 (external information sources)
4. Discuss ASIC feedback from morning session

## **Material Presented**

Agenda Item 7	AUASB Board Meeting Summary Paper
Agenda Item 7.1	Annotated summary of feedback from roundtables
Agenda Item 7.2	Annotated (AUASB comments included) Deloitte Comment letter – ED 540
Agenda Item 7.3	AICD Comment letter – ED 540
Agenda Item 7.4	Draft covering letter to IAASB
Agenda Item 7.5	Draft response letter to IAASB

[Electronic Link to ED ISA 540](#)

Q1 – General  
Melbourne

- General comments: too lengthy, too rushed, many errors
- Q3 • Concern as to how this would work in the non-banking sector – appears to be a big onus and significant practical challenges particularly mid-tier and small r.
- Q3 • Introduction of concept of low IR – not sufficient guidance. Concern around moderate
- Q3 • Challenging with 315 in relation to 315 concept of significant risk and 315 does not require testing of controls
- Q2 • Clearly intent is to remove auditor's professional judgement and make things more prescriptive. In effort's to help – hindered by too much detail.
- Q2 • Concern regarding widening gap between practitioner and regulator and this standard appears to be heading down the performance path.
- Q4 • Real concern that an estimate could fall into all 3 buckets and so testing of all buckets – essentially makes scalability a moot point.
- Term reasonable still unclear – no convergence between regulator and practitioner
- Q4c • Appendix 1 is IFRS 9 focuses – this is inconsistent with the principles of the standard – removed as content should be embedded in principles within the standard.
- Would it be helpful to have separate guidance on how to apply in different frameworks ie. IFRS, greenhouse? Separate from the standard. keep the standard framework neutral and have separate guidance / application papers
- Is it future proof? Hard to say. but keeping it framework neutral will help keep it future proof.
- Q2 • Lot of reference to management in standard. Unless management educated as to their role and obligations problem persist
- Q2 • How do we as a profession communicate to preparers about their responsibility to provide adequate records / evidence for the auditor
- Q2 • Continuing issue with expecting the auditor to audit matters which management has not done.

Points made throughout

Don't think AUASB role to comment

Anne / Matthew Q1.

Sydney

- Q2 • Application material too prescriptive and too detailed with not enough practical examples
- Q2 • Standard full of management expectations – significant step up from extant from management perspective. Need to find a way to educate management and set up management not through the auditing standards – ethical standards, accounting standards. Standard is very much from preparers perspective so coming through in auditing standards not appropriate
- Q3 • Concern regarding extent of audit effort for all estimates
- Q4c • Standard mixed in terms of requirements and guidance – not always clear what the specific requirement is
- Difficult to predict the future to the answer to future proofing is not apparent.

Anne / Matthew Q1



## Q2 – Professional Scepticism

### Brisbane

- Q2 • There should be more onus on management to provide appropriate auditable documentation before onus on auditor to audit it
- Way to encourage above – standard to provide example of sufficient deficiency: inappropriate management supporting evidence → One off comment → Don't agree
- Q2 • Example of auditing being expected to do more than management/directors – undue burden / auditing standards being more mature: data governance still guidance note from APRA not yet a standard → Example too Australia specific
- Q2 • Interesting to note that documentation requirements in standard do not call out regarding stand back provision
- Q2 • Don't believe stand back provision will change practice – already done. Good concept though
- Q5/6 • Management ranges > performance materiality – standard still not clear on how to treat

→ First Time wanting more → Disagree ①

### Melbourne

- Q2 • View expressed for PS to be more explicit in the standard including change in language to more critically assess/challenge. View that standard is still too subtle regarding exercise of PS.
- Refers to management bias – but auditors don't always link that well to PS. ?
- Management bias is too far back in the standard. Make it more explicit up front. → It's at front end - disagree
- Doesn't go far enough. → See ① above
- Q2 • Should it include the word "challenge". Understand reservations on including this word but how to make it more explicit that it isn't just "enquiry". challenge? Critically assess?
- Par 23 requires the auditor to consider contradictory evidence – but needs to be earlier and more emphasis of this in the requirements. → comes through elsewhere
- Q2 • Tone of the standard needs to be stronger on PS. Not just obtaining information.
- Point estimate – why should the auditor do it if management haven't. → comes thru' Q5/6
- Needs more in the documentation. ①

### Sydney

- PS is so pervasive should it be coming through each standard individually or in 1 standard above → ①
- Q2 • Language still corroborative rather than questioning/challenging – for example para 19
- PS in using experts – how far do you go
- Q2 • Scepticism vs paranoia – A101 "other available" "might have been more appropriate" → indicating look to any other alternatives - way beyond skeptical
- Q2 • Standard currently so prescriptive – losing PJ and PS
- Q2 • How can auditor fulfil responsibility where management not responsible – para 19 and 21
- Q2 [ • Stand back provision – supportive but question regarding expectation of documentation
- Wording of stand back provision is loose/vague – need to be more explicit in wording and state that this is a "stand-back" provision.

Q3 – inherent risk  
Brisbane

Party Q3

- Interesting that application material giving examples of what is low IR – surely this is client specific?

Q3

- Inherent risk concept being zoned in on – ahead of where 315 may land – viewed as problematic

Q3

- Para 15(a)(iii) – seems a big step up after (i) and (ii) → It's not an and it's an or so disagree.
- Concern around more work for moderate risk CRA
- need to test controls – may impact scalability

Melbourne

- Question as to how relevant and beneficial examples in the application are. → Comes through differently

Q3

- Don't agree with using low IR to determine scaling. Should be consistent with 315.

Q4

- Para A97 is confusing. So not all the points i... duces? If not needs to be clearer in the standard.

Q4

- Concern most / a lot of estimates would fit into the 3 categories. So how is this scalable?

Q4

- Auditors will be conservative and do them all

Q4

- A72 and A73 examples are confusing and raise questions. Auditors may use them as rules. For example depreciation goes too far

- Need a contra ie this is an example of high, this would be low?

Sydney

Q3

- IR low is not defined – yet examples given by A72 are ridiculous – would imply that almost every estimate would be captured by standard – so the objective of scalability is contradicted by this paragraph

- Key controversial point is what is low?

- Most auditors perform combined risk assessments – so scoping based on IR alone seems contrary to common practice

Q4: - Where IR is not low  
Brisbane

- Q4 • Seems very checklist mentality / prescriptive
- Q4 • struggled to differentiate between judgement and estimation uncertainty – this needs clarification or perhaps collapsed into 1
- Q4 • Whether something is complex may well depend on composition of audit team
- Q4 • Do you need to consider all 3 buckets once you are in not-low

Melbourne

- Q4 • Complexity as a concept is a relative concept that is not addressed in the standard. Relativity depends on skill of audit team, nature of client/skill of client. Suggest some kind of matrix.
- Q4 • Work effort seems to discount auditor's exercise of PS and PJ
- Q3 • Conflict between extant 315 and 540 – in relation to significant risk concept and testing of controls.
- Q3 • Concern regarding whether estimate will ever not be low and be captured by standard.
- Q4 • View that complexity and judgement drive estimation uncertainty – before estimation uncertainty will always be a bucket.
- Q4 • Fear of loss of PJ and checklist mentality – potentially end up in all 3 buckets and significant change in practice as more estimates will be captured.
- Q3 • Including more prescription / detail around low IR further diminishes exercise of PJ.
- Q3 • Not sufficiently flexibility in the standard – intention is there, however concern that will be auditing estimate because you have to, not because real risk.
- Where IR is low – seems to be a big step up in audit effort in 15(a)(iii) ⇒ As before

Sydney

- Q3 • Fundamental issue with use of IR and not ROMM (IR and CR combined). CR should not be taken out of initial determination of work effort
- Q3 • Estimates by their nature would not have low IR, rather it's the CR that determined whether something is really risky (eg stock provisions)
- Q4 • Buckets are a problem: judgement and estimation uncertainty cannot be split, buckets make it difficult to comply and in effect loose scalability because of cross-over. Non-sensical allocations.
- Q4 • Auditors will be spending time on determining buckets rather than reducing ROMM
- Q3/4 • Loosing PS and PJ
- Q3 • Can you ever have an estimate without no judgement



## Q7 – Audit Evidence

### Brisbane

Q7

- Wide applicability to all standards – have implications been appropriately thought through enough guidance on what to do where auditors and management have used same source
- Not enough guidance on audit effort i.r.t pricing information/VIDA credit checks – where not externally quoted → Too specific.

### Melbourne

Q7

- No real issues

• May need more application material as to when it is necessary and extent of work required to understand process & gather potentially more 3402 type work.

- The information may not be available to the auditor so problematic → comes through.

Q7

- A3311 – different source? doesn't make sense

• Will it result in more 3402 reports, or types of these

- If applicable – when is it applicable or not? ?

• Increases the bar. Agree auditors need to consider but be careful.

### Sydney

Q7

- Concern whether this is just too much detail

• Is there enough focus on managements consideration → comes through elsewhere.

Q5/Q6: - auditor's range  
Brisbane

Not for  
Answers to  
comment

Q5/6

- Regulators have a different view and this still leaves the issue open with them
- Still not enough clarity where outside of range
- reliance on specialists/experts coming through this standard – those standards not updated ?

Melbourne

Q5/6

- Standard clearly trying to introduce concept that all ranges need to be within materiality – this essentially removes concept of auditor's exercise of PS and PJ. Stems from regulator concerns regarding how auditors are using PS/PJ in the establishment of their ranges and thresholds and holding to them consistently.
- Para 20(b) second part of sentence "and other requirements...reporting framework" – should be removed as this donates materiality. Also risk factors can be driven by industry risks not always reporting frameworks.
- Perhaps guidance is needed as to:
  - types of considerations auditors use in the establishment of setting ranges and thresholds
  - mechanisms through which an auditor documents and reconsiders those thresholds in the conduct of the audit

Sydney:

Q5/6

- A128 – standard deems testing to be a substantive analytical procedure and then sends auditor to ISA 520 for more work (4 step approach). Auditors do not deem their work to be a SAP but rather a hybrid of test of detail and SAP – standard not dealing with the way auditors currently audit. Ranges are audited via SAP while point estimates generally a test of detail.
- Standard not providing guidance on when ranges are large and exceed materiality.

Q5/6

- Paragraph 20 could be more tightly drafted – a bit vague at the moment, should be more specific ?
- There is a disconnect on the concepts of using a 'point estimate' and 'range' – Paragraph 20 refers to using a range but most of the Application Guidance discusses the use of a point estimate. Suggestion there should be a "hierarchy" added into the standard to assist auditors on when to use a point estimate or range.
- The sequencing of the Application Guidance from A128 and A134 doesn't make sense and should be revised → Bigger issues than sequencing so not raised.

Q5/6

- A greater volume of principle based examples would be helpful in the Application Guidance or Appendix on the use of the point estimate or range and how misstatements are calculated. A visual example of how the range applies per paragraph A145 would be a particularly good idea.
- More guidance needed to support auditors on what the requirements are when the extent of range proposed is in excess of materiality levels, especially as experts (e.g. valuers) will not take materiality into consideration when they set their ranges.

**Deloitte.**

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The Chairman  
Australian Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne, VIC 8009

7 July 2017

Dear Chairman

**Re: Exposure Draft ED 540– Auditing Accounting Estimates and Related Disclosures**

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) Exposure Draft Proposed International Standard on Auditing 540 (Revised) – *Auditing Accounting Estimates and Related Disclosures* ("ED 540").

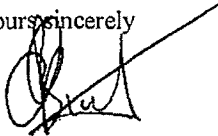
We fully support the IAASB's project to extensively revise the extant ISA 540 and acknowledge the positive direction and improvements included within ED 540 that assist in enhancing audit quality. We are also supportive of more specific outcome-based requirements and further emphasis on a granular risk assessment process. Having said this, we do have a number of concerns as to whether ED 540 translates into clear requirements that are capable of being understood and operationalised when auditing different types of entities and estimates. As a result, we believe that ED 540 requires further assessment and refinement, especially in relation to its broader applicability and scalability, as well as the incorporation of additional guidance and practical implementation considerations.

Please refer to Appendix 1 for our responses to the specific questions posed by the IAASB within ED 540.

In addition, we have included other specific comments relating to ED 540 in Appendix 2.

If you have any queries in relation to this response please do not hesitate to contact me on +61 2 9322 3434\*.

Yours sincerely



Gareth Bird  
Partner  
Deloitte Touche Tohmatsu

*\*This submission is based on my position as a Partner at Deloitte Touche Tohmatsu and represents the views of the firm. It does not represent my personal views as a board member of the AUASB.*

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## Appendix 1 – Response to specific questions posed within ED 540

### Overall Questions

#### 1. Has ED 540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?

We acknowledge that ED 540 attempts to address limitations and challenges associated with the extant ISA 540, and we support the project to update ISA 540 so that it is more aligned with the current environment and relevant for evolving financial reporting frameworks, such as incorporating elements to assist in dealing with accounting estimates arising from the revised International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”).

Having said this, it seems that the drafting of ED 540 is predominantly focussed on auditing accounting estimates that would typically arise for financial institutions in accordance with IFRS 9 and as such, we have identified a number of concerns associated with ED 540 which, in our view, preclude ED 540, from meeting its intended purpose and being effectively implemented, being:

- The applicability of the standard across different types and sizes of entities and accounting estimates,
- The practical implementation considerations of the standard,
- The responsibilities of the auditor versus management,
- The length and prescriptive nature of the standard.

#### The applicability of the standard across different types of entities and accounting estimates

We believe that further guidance is needed within ED 540 as to how the requirements scale based on the particular type of entity (for example, the different size, complexity or sophistication of an entity) and the nature of the specific accounting estimate will assist in the practical implementation of the requirements.

We note that ED 540 includes examples of common account balances where accounting estimates exist and whether they would generally be considered low inherent risk or not. Whilst acknowledging the intention of assisting auditors with practical examples, it appears to remove the professional judgement to be applied depending on the specific facts and circumstances. It creates an expectation for the practitioner to categorise and address the listed accounting estimates in a prescribed manner and doesn't provide comparison information to assist in determining what combination of factors may lead to a low inherent risk or other than low inherent risk conclusion.

#### The practical implementation considerations of the standard

We are of the view that the level of effort required to practically implement the requirements within ED 540 on the part of both the practitioner (in complying with all of the prescribed requirements and auditing the supporting evidence) and the client (in originating the supporting documentation) will increase significantly both in time and cost.

We acknowledge and are fully supportive of the extensive consultations that have taken place prior to the issuance of ED 540, however we recommend that further consultation is held specifically with management and those charged with governance of different entities across a range of industries in order to obtain a more granular understanding of the potential impact of implementation. In addition, priority should be given to communicating with and educating management and those charged with governance as to the changes included within ED 540 (compared to the extant ISA 540) and the expected impact on their responsibilities as well as the extent of the extra work required to be performed by the auditors and thus resultant cost.

#### The responsibilities of the auditor versus management

The designation of responsibilities between the auditor and management is sometimes unclear which may lead to confusion and potentially an increase in scope of the auditor's responsibilities if applied in practice. This is illustrated where the auditor is required to obtain prescribed information from management as part of auditing the accounting estimate and, in the event that certain information cannot be sourced or has not been obtained by management, ED 540 may be interpreted as requiring the auditor to prepare or originate the information to meet the requirements. Instead, ED 540 should be clearly stating that in circumstances where sufficient and appropriate audit evidence cannot be obtained from management, then the auditor will assess the impact of this in accordance with the auditing standard requirements and it may result in a modification to the opinion in the auditor's report.

Refer Q1  
response ~  
Still seeking  
AASB input  
in dealing  
with specific  
question.

Agreed:  
Refer Q3  
Introduction

Agreed:  
Refer  
Q 3.2 +  
Q 2.3

Submission  
notes ↑  
work effort

Dealt with  
differently  
but point  
made ~  
Q 2.2

Refer  
Q 2.2



## The length and prescriptive nature of the standard

Refer  
Q 2.3

It seems that the IAASB is moving away from the concept of principle based standards and towards the opposite end of the spectrum being more prescriptive and checklist driven. The extensive length and prescriptive nature of the requirements and guidance of the standard may hinder the ability of the practitioner to exercise professional judgement based on the specific facts and circumstances of the engagement.

## 2. Do the requirements and application material of ED 540 appropriately reinforce the application of professional scepticism when auditing accounting estimates?

Refer  
Q 2  
intro

We acknowledge that ED 540 does reference professional scepticism in the following two areas:

- The need to consider management bias,
- The requirement to "stand back" to consider and evaluate whether the estimate is reasonable in the overall risk assessment context.

(\*)

Discuss

With AUASB

- comprehensive
- explicit.

We note that overall ED 540 is very prescriptive in nature (as indicated above) but this same philosophy has not been applied when incorporating the concept of professional scepticism. If the decision has been made by the IAASB to incorporate more detailed and specific requirements and guidance relating to the application of professional scepticism within individual auditing standards rather than a centralised location (for example, ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Australian Auditing Standards*), then we believe it should be embedded comprehensively throughout the standard to provide more direct, practical and useful assistance to practitioners.

Apart from the two exceptions (as noted above), ED 540 lacks explicit reference to the exercising of professional scepticism, as well as guidance as to what this means in practice for the auditor, what types of procedures may be performed, how to assess contradictory evidence and the expectation of what would constitute appropriate documentation specifically in the context of auditing accounting estimates.

Refer  
Q 2.3

Given the inherent risk commonly associated with accounting estimates, particularly in relation to estimation uncertainty, complexity and judgement, the relevant level and application of professional scepticism becomes even more critical for the auditor. As a result, specific requirements and guidance relating to the application of professional scepticism should be incorporated within ED 540, including appropriate wording that prompts practitioners to "critically assess" or "challenge", rather than just accepting and relying on management's information or views. This would assist the practitioner in practically implementing and satisfying the requirements of ED 540, as well as meeting the expectations of regulators and other stakeholders.

Consequently, our view is that ED 540 should be more overt in articulating the practitioner's responsibilities in this regard, and to what extent professional scepticism should be exercised.

## Focus on Risk Assessment and Responses

## 3. Is ED 540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?

Intro to  
Q 3

We have identified a number of potential challenges in relation to the scalability of ED 540 which are outlined below.

As indicated above, we are of the view that ED 540 is drafted predominantly to include requirements and application guidance relevant for auditing accounting estimates stemming from IFRS 9, and as a result, it does not necessarily easily allow for the scaling or tailoring of these requirements to the broader population of common accounting estimates.

Examples of the key challenges relating to scalability are as follows:

Dealt with  
differently  
but same  
message  
Q 3.2

### Complex versus non-complex accounting estimates

Paragraph 13(a) outlines criteria in assessing whether an accounting estimate is complex, and among other attributes, identifies "modelling and specialised skills and knowledge" as an indicator of complexity. What is unclear from ED 540 is that in situations where these factors are not present, to what extent does the nature and extent of audit procedures change as a result.



## Low inherent risk

Refer  
Q 3.1

ED 540 introduces a new concept relating to "low inherent risk" which then flows through to altering the nature and extent of audit procedures performed and sufficient evidence obtained when auditing accounting estimates.

More broadly, we question whether ED 540 is the appropriate mechanism through which to introduce the concept of low inherent risk as it is not consistent with other auditing standards and is not only relevant to auditing accounting estimates. Perhaps the revised ISA 315 would be a more appropriate channel through which to introduce, define and articulate the concept of low inherent risk and the impact it has across different areas of the audit (for example, risk assessment procedures).

Furthermore, there are a number of practical implementation challenges associated with the incorporation of the low inherent risk concept within ED 540:

- The distinction between "low inherent risk" and "other than low inherent risk" is treated as a discrete difference, however in practice, the differentiation would be more linear, and accounting estimates would likely land partly in both categorisations.
- Given the inherent nature of accounting estimates, where a risk of material misstatement has been identified, we envisage that it would be a challenge documenting and justifying the accounting estimate as being "low inherent risk".

Covering  
letter  
Point 2

We highlight our concern with the specific examples provided in paragraphs A72 and A73 as to what constitutes "low inherent risk" and "not low inherent risk". Risk assessment decisions vary across all engagements based on the application of professional judgement and are dependent on the specific facts and circumstances. Including examples in this context reduces the degree of professional judgement that can be applied, and exposes practitioners to questioning from regulators as to why their conclusions did not align with the auditing standard. As a consequence, we envisage that it would be challenging for practitioners to justify a low inherent risk classification for items listed in paragraph A73, and does not take into consideration the three elements of complexity, judgement and estimation uncertainty.

Refer  
Q 3.2

We further note a large change in prescribed procedures depending on the "low inherent risk" or "not low inherent risk" classification. As a result of the large difference, this also reduces the ability of the practitioner to scale the audit response appropriately in the context of the risk assessment, particularly as there is no intervening risk classification option in between "low" and "not low".

### Applicability for small and medium enterprises (SME's)

The prescriptive requirements of ED 540 in relation to the auditing procedures to be performed and the audit evidence required to be obtained will be particularly onerous for SME's. ED 540 does not indicate to what extent audit procedures or evidence requirements can be scaled for entities in the SME space.

### Impact of prescriptive nature of the standard

As ED 540 is less "principles based" than the extant ISA 540, and more prescriptive in nature, we are of the view that this "rules based approach" will cause practitioners to adopt a checklist mentality, and as a result further limit the application of professional judgment by the auditor. From a scalability perspective, unless ED 540 provides clearer guidance as to the scalability of the standard, practical implementation difficulties will occur as a result of overlaying onerous requirements to all circumstances instead of when they are specifically warranted (for example, expected credit loss estimates included within IFRS 9).

Refer Q3.1  
~  
Combined  
risk  
assessment

Refer Q3

Refer  
Cover letter  
point 4 &  
Q 2.3

## 4. When inherent risk is not low (see paragraphs 13, 15 and 17-20):

- a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?
- b) Do you support the requirement in ED 540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?

c) *Is there sufficient guidance in relation to the proposed requirements in paragraphs 17 to 19 of ED 540? If not, what additional guidance should be included?*

We believe that the requirements within paragraphs 13, 15 and 17-20 do not sufficiently articulate the nature and extent of how the practitioner should respond to accounting estimates which are "not low" from an inherent risk perspective. We refer back also to our comments made above in relation to the inclusion of the "low" and "not low" inherent risk concepts.

## Defining what constitutes a "not low" inherent risk accounting estimate

We are of the view that ED 540 needs to clearly define the criteria under which an inherent risk is deemed to be "not low". We acknowledge that paragraphs 17-19 attempt to refer to "significant data" and "significant assumptions" as being indicators that an accounting estimate is "not low", however because no definition or explanation is provided as to what "significant" represents, the ability of the practitioner to effectively identify and assess risks of material misstatement is hindered.

We note that ED 540 defines the aforementioned terms in the explanatory guidance, however we propose that these definitions be moved to the definition section, and the explanatory guidance is instead utilised to assist practitioners in understanding how we incorporate these factors appropriately in the context of risk identification and assessment.

## One or more relevant factors

We acknowledge the intent and purpose of articulating the three relevant factors (complexity, judgement and estimation uncertainty) to assist practitioners in establishing a framework to identify and assess risks associated with accounting estimates.

However, practically we envisage difficulty in how these categorisations are evaluated and the interplay in the context of risk identification and assessment, particularly as we note that it is difficult to envisage a scenario where an accounting estimate does not contain elements of at least two of the three categories, and if so, does it create an onerous burden whereby as soon as an accounting estimate meets the criteria of only one of the relevant factors, every procedure prescribed in ED 540 will be applicable.

## Sufficiency of guidance

We are of the view that paragraphs 17-19 do not provide sufficient guidance as to the nature and extent of procedures to be performed by practitioners, particularly in relation to whether the requirements apply in all circumstances, or whether the requirements are scalable (refer to our discussion on scalability in our response to question 3 above). Further areas where paragraphs 17-19 need clarification include:

- To what extent is documentation of the prescribed requirements needed or expected, particularly where an item is not applicable to a specific engagement, → PJ

- If the entity is unable to provide documentation (for example, evidence of management taking appropriate steps to understand and address estimation uncertainty (paragraph 19(b)(i)), does the onus then shift to the practitioner in producing this documentation. Does this not imply a potential modification to the opinion in the auditor's report? Additionally, where management does not have an appropriately documented model which determines the point estimate, is the practitioner required to develop the point estimate or range, by developing their own model? We are of the view that this may create a risk where the practitioner is obligated to originate information which should be in the domain of management's responsibilities (refer to our response to question 1, included above),

- As discussed previously in our response to question 2, to what extent should professional scepticism be specifically incorporated into addressing the requirements?

- Will the practitioner have the knowledge and expertise to action all of these requirements? If not, under what circumstances will the practitioner be expected to engage experts?

- Is estimation uncertainty more significant a driver than judgement and complexity? If so, should additional audit effort be placed on this category compared to the other two?

- We note that Paragraph A97 is inconsistent with what has been described in paragraph 15(b) of the standard, which prescribes appropriate procedures to address the various elements of complexity, judgement and estimation uncertainty. Paragraph A97 indicates that ED 540 does not contain any requirement in what

Partly in  
Q 3.1

⊕ AUASB

• significant

Q for AUASB:

→ Do you agree to include?

Refer

Q 4.1

⊕ AUASB

• level of detail

↓ Q for AUASB - Agree?

Partly through

Q 2.2

Refer Para 10(e)(iv)

Partly through Q 4 intro

Matters to consider / obtain SAAS ≠ Procedures

procedures to undertake when there is a "not low" inherent risk scenario. This appears contrary to what paragraph 15(b) describes.

5. *Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor's range should be developed? Will this approach be more effective than the approach of "narrowing the range", as in extant ISA 540, in evaluating whether management's point estimate is reasonable or misstated?*

We are of the view that further guidance is required in order to clarify the expectations of when an auditor's range should be developed, and how an auditor's range is utilised in evaluating management's point estimate.

We understand that, unlike the extant ISA 540 where the practitioner is required to reduce the range to what is reasonable, under ED 540 the practitioner is instead required to develop a point estimate or, if deemed appropriate, develop an auditor's range under which management's point estimate is accepted if it falls within the auditor's range. We note that neither paragraph 20 nor the related application material clearly indicate under what circumstances an auditor's range is more appropriate than a point estimate. It is also not clear on how materiality is considered in this context.

In meeting the requirements for ED 540, the practitioner is creating an auditor's range through the process and in the course of doing so may develop alternative assumptions used by management. Practically we request guidance on what this would mean for the practitioner. For example, if management has not addressed the estimation uncertainty, then is the difference between management's point estimate and the auditor's point estimate or range automatically a judgemental misstatement?

Furthermore, paragraph A128 indicates that in developing an auditor's range, the auditor is designing and performing a substantive analytical procedure. It is unclear if the auditor is required to construct an independent estimate for the purposes of evaluating management's point estimate, or if the auditor's range is designed to be a reasonable range based on our evaluation of management's point estimate.

We suggest that this concept may commonly result in ranges with large differences between the lower and upper thresholds, resulting in a low standard of test for which management's point estimate is evaluated against. The requirements do not indicate how large differences between the auditor's range and management's estimates need to be assessed when due to the different sources of information used.

Considerable professional judgement and professional scepticism is envisaged to be required when determining this range, and we recommend that ED 540 be updated to incorporate further guidance in the considerations to be applied when evaluating a point estimate with a range, and secondly, in determining the auditor's range as well as the interplay with materiality as determined by the practitioner.

6. *Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor's range to evaluate management's point estimate?*

Our view is that consistent determination of misstatements will continue to be a challenge in relation to:

- The difficulty in determining whether there is a misstatement, and
- If there is a misstatement, determining the amount of the misstatement

In relation to determining whether there is a misstatement, ED 540 does not provide guidance on how practitioners assess and evaluate differences between the auditor's range and management's estimate, where the difference has arisen due to different sources of information or assumptions used. Consequently this will impact on how consistently practitioners conclude on the difference and when a misstatement exists.

Additionally, where a misstatement has been identified, the amount that should be calculated and recorded as a misstatement is not clear from the guidance within ED 540. Given that the auditor's range is an estimate and has an upper and lower threshold, we would expect to experience variability in relation to when a misstatement is identified, how a misstatement is calculated and thus the amount of the misstatement.

Consider  
Addressed  
through  
Q 5  
Q 5.1  
Q 5.2  
Q 5.3

Q 5.2  
address  
Hierarchy

Covered  
Q 5.3

Consider  
Addressed  
through  
Q 5.3

Consider  
Application Para  
A 14.5 covers  
this



7. *With respect to the proposed conforming and consequential amendments to ISA 500 regarding external information sources, will the revision to the requirement in paragraph 7 and the related new additional application material result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources?*

We acknowledge that the amendments to ISA 500 provide further clarity in relation to information used as audit evidence by specifically referring to information obtained from an external information source.

We highlight that the proposed amendments to ISA 500 are limited to revision of the requirement in paragraph 7 and stand-alone additional application material included within paragraphs A1A–A1C and A33A–A33H and that it specifically states that these amendments are relevant for external information sources. Based on this, **is the intention that all the other current requirements and guidance, are only relevant to internal information sources** or are they applicable to both internal and external information sources?

We recommend that further clarification be provided as to how the requirements and application material should be applied to internal and external information sources, especially within the section entitled “Audit Procedures for Obtaining Audit Evidence” that incorporates guidance relating to the different types of procedures that may be performed (for example, inspection and external confirmation) and within the section entitled “Relevance and Reliability” as this includes guidance relating to the relevance and reliability of the information to be used as audit evidence.

Additionally, we draw attention to the new paragraph A33B of ED 540 which includes considerations about the relevance and reliability of information obtained from an external information source and specifically to the fifth bullet point which states that “**When available**, information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods.” Our view is that the circumstances under which such information is likely to be readily available will be quite limited (predominantly situations where formal reports are issued by service organisations). We recommend that **further guidance** is included to provide assistance to practitioners in understanding what “when available” actually means and determining in what circumstances this would be appropriate.

## Request for General Comments

8. *In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:*

(a) *Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-540.*

[ We have not noted any significant issues in relation to the translation of ED 540 to an Australian environment.

(b) *Effective Date—Recognizing that ED 540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA*

[ We agree with an extended time period of between 18 to 24 months between the release date and effective date of the standard, in order to assist with effective implementation.

Given that ED 540 has changed considerably from the extant ISA 540, is much more extensive and contains a number of prescriptive requirements, allowing extended time enables management to establish the appropriate processes, controls and documentation required to enable the auditor to address the requirements of ED 540. As a result, we support an appropriate timeframe for this to occur, in conjunction with appropriate communication and education of the business community with respect to management’s and the auditor’s responsibilities under ED 540 (as included in our response above).

\* IAASB



First time  
matters  
raised

Q Agree?

Q 8 a

Q 8 b

AWASB

↳ Suggest Include Points of Detail

## Appendix 2 – Other specific comments relating to proposed changes within ED 540

ED 540 Paragraph	Comment
<b>Other Items</b>	
Paragraph 18(a)(i)a.	With respect to the statement: <i>"Are appropriate in the context of the measurement objectives and other requirements of the applicable financial reporting framework"</i> , we recommend that further guidance is included on the interpretation of the references made to "measurement objectives" and "requirements of the applicable financial reporting framework".
Paragraph 21(a)	The disclosures paragraph includes reference to: <i>"...whether management has provided the disclosures beyond those specifically required by the framework..."</i> . It is not clear what this actually means given that it is standard wording included with reference to a fair presentation framework. Is there an expectation that management would need to disclose additional disclosures beyond those specified within the applicable accounting standards? We recommend that this wording is updated or further guidance is provided to clarify the requirements and expectations.
Paragraphs A24 and A25	These paragraphs include reference to what is included in management's processes and what the auditor may consider in obtaining an understanding of how management makes the accounting estimate. We believe that they should also include other common considerations such as: who is involved in the process, the use of experts, the IT systems used and whether internal and/or external information sources are used.
Paragraph A29	It currently states: <i>"A model is complex when: ...</i> <ul style="list-style-type: none"> <li><i>• Relevant and reliable data needed for use in the model is difficult to obtain;</i></li> <li><i>• The integrity of the data is difficult to maintain; ..."</i></li> </ul> We specifically note the reference to "difficult" in both of the bullet points. As this term is relative and can have different meanings, we suggest that guidance is included as to how to assess what constitutes "difficult" which will practically benefit practitioners.
Paragraph A33	The last section of this paragraph states: <i>"Assumptions may be made or identified by a management's expert to assist management in making the accounting estimates. Such assumptions, when used by management, become management's assumptions."</i> There is no reference to assessing the management's expert, the scope of their work and how this impacts management's accounting estimate. Is this implying that these procedures would not need to be performed by the auditor?
Paragraph A43	We note that the following statement is included at the end of this paragraph: <i>"A failure by management to apply the required specialized skills or knowledge, including engaging an expert when management does not otherwise have access to an individual with such skills and knowledge, increases control risk."</i> Our view is that the potential increase in risk is not only limited to control risk - it may also or alternatively increase the inherent risk.
<b>Editorial Changes</b>	
Paragraph 3(a)(ii)	We propose streamlining the wording as follows: Current wording: <i>"...whether data is obtained from internal sources or from external information sources."</i> Proposed wording: <i>"...whether data is obtained from internal or external information sources."</i>
Paragraph 9(c) and Appendix 2, paragraph 4	We note that the definition of estimation uncertainty in paragraph 9(c) and paragraph 4 of Appendix 2 in ED 540 are not consistent.



	<p>Paragraph 9(c) states: <i>"Estimation uncertainty – The susceptibility of an accounting estimate to an inherent lack of precision in its measurement."</i></p> <p>Paragraph 4 in Appendix 2 states: <i>"Estimation uncertainty is the inherent uncertainty that makes accounting estimates susceptible to a lack of precision in their measurement."</i></p>
Paragraph 20	We note that this paragraph does not contain a cross reference to the applicable application guidance paragraphs A128 to A134.
Paragraph 26	We recommend that the wording be updated from <i>"the auditor is required to communicate"</i> to <i>"the auditor shall communicate"</i> .
Paragraphs A4-A8	<p>Additional information relating to the specific definitions applicable to this standard is included within the 'Application and Explanatory Material' section of the standard'. We recommend that this information is either moved to be incorporated as part of the definition (in paragraph 9) or is removed entirely as it is not adding any further guidance.</p> <p>For example, paragraph A6 relating to Estimation Uncertainty simply states: <i>"Estimation uncertainty is an inherent characteristic of accounting estimates. The nature and implications of estimation uncertainty are discussed further in Appendix 2."</i> In this example, we recommend that the first sentence is deleted and reference to Appendix 2 is included in paragraph 9.</p>
Paragraph A17	We suggest deleting the words "to make" after the reference to "complex", so that the sentence instead reads as follows: <i>"...whether the accounting estimates are complex, require significant judgement by management, or have high estimation uncertainty."</i>
Paragraph A35	We suggest that the definitions for "significant assumptions" and "significant data" be moved to the definitions section of the standard (paragraph 9).
Paragraph A41	The wording of the 4th bullet point doesn't read well: <i>"The consistency of the data used with data used in previous periods."</i> We recommend that the wording be changed to include reference to "in comparison" with the proposed wording as follows: <i>"The consistency of the data used in comparison with data used in previous periods."</i>
Paragraph A65	The second last sentence of this paragraph (starting with <i>"For example,"</i> ) includes a typo. The current wording is: <i>"...the outcome of a previous period's fair value accounting estimates..."</i> – it should be changed to <i>"accounting estimate"</i> instead.
Paragraph A76	We recommend that the wording "that specifically address the risk" be included at the end of the last sentence so it reads as follows: <i>"...the auditor is required to obtain an understanding of the entity's controls, including control activities that specifically address the risk."</i>
Appendix 1, paragraph 9	We propose deleting the word <u>"statement"</u> from: <i>"...that reflect the cost paid or consideration given (and transaction costs) for a statement asset acquired or built"</i> (and making reference to "an asset" instead).

10 July 2017

Chair, International Auditing and Assurance Standards Board

*Via Submit a Comment link on IAASB website*

To whomever it may concern

**Submission on Exposure Draft on Proposed International Standard on Auditing 540 (Revised): Auditing Accounting Estimates and Related Disclosures**

Thank you for the opportunity to provide a submission on the Exposure Draft on Proposed International Standard on Auditing (Revised): Auditing Accounting Estimates and Related Disclosures ("the ED").

The Australian Institute of Company Directors (AICD) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD are concerned that the proposals will significantly increase the level of audit work undertaken and therefore increase audit costs, for no obvious benefit to stakeholders. We understand that the changes are a result of an increase in focus on the auditing of accounting estimates for financial institutions arising from concerns expressed by regulators. Further, we understand the application of the new IFRS 9 *Financial Instruments* from 1 January 2018 will have an impact on loan loss provisioning methodologies for some large and complex organisations in some jurisdictions.

However, in our view these developments do not warrant a wholesale change to the audit methodology for auditing accounting estimates for all organisations, many of which are not large or complex or financial institutions and will not be overly impacted by the new loan loss provisioning requirements.

Those areas where we see an increase in audit effort without commensurate benefits include:

- the need for the auditor to re-perform estimates that have been undertaken by management. Specifically, this relates to the requirement of the auditor in certain cases to develop a point estimate or a range to evaluate management's point estimate. We consider the current requirements (assessment of the inputs to the model, being satisfied with the operation of the model itself, and testing controls around the use of the model) sufficient in the case of most accounting estimates; and
- the application of the proposals to all estimates, irrespective of the extent of the risk of material misstatement to the financial report.

We found the explanatory memorandum along with the standard and accompanying application guidance lengthy, repetitive and difficult to assess the impacts on preparers and directors. We recommend that the impact of future proposals on these particular stakeholders, along with costs and benefits, to be clearly articulated in non-technical language in the accompanying material and that the standard and application guidance is better integrated to avoid repetitiveness.

Further, within these proposals there were several references to what management or those charged with governance may do or provide to the auditors. The AICD recommends that if there are additional requirements of management or those charged with governance, these requirements are placed in the relevant financial reporting standards and consulted on accordingly and not the audit standard. The auditing standards are not referred to by those stakeholders in their preparation of the financial report.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 61 (0)2 8248 6635 or at [khicks@aicd.com.au](mailto:khicks@aicd.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

**LOUISE PETSCHLER**  
General Manager, Advocacy

CC: Chair, Auditing and Assurance Standards Board, Australia



**Australian Government**

**Auditing and Assurance Standards Board**

Agenda Item 7.4  
AUASB Meeting 18 July 2017  
Clean version

Podium Level 14, 530 Collins Street  
Melbourne VIC 3000 Australia  
PO Box 204, Collins Street West  
Melbourne VIC 8007

1 August 2017

Mr Matt Waldron  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Dear Matt,

**AUASB Submission on the IAASB's Proposed International Standard on Auditing ISA 540 (Revised)**  
***Auditing Accounting Estimates and Related Disclosures***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Proposed International Standard on Auditing ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* ("ISA 540").

The AUASB commends the IAASB's initiative in continuing to foster audit quality and considers the area of accounting estimates and related disclosures to be an important part of that initiative. The AUASB is supportive of the intentions behind the IAASB's proposed revisions to ISA 540 and plan to improve audit quality by keeping the auditing and quality control standards relevant in the face of continually evolving business environments and pending accounting standard changes (in particular IFRS 9, 15 and 17).

Having reviewed the proposed changes and sought feedback from a wide range of stakeholders within Australia, the AUASB raises the following key points of particular importance for the IAASB's consideration which are elaborated on further in the detailed submission:

1. Accounting estimates are an integral part of financial reporting, often accounting for a large proportion of financial statement line items. Many estimates are complex, involve a significant amount of judgement and they can include significant estimation uncertainty. In some circumstances, the estimation uncertainty can lead to a range of possible outcomes that can be many multiples of materiality. In reality, it is not possible to bring greater precision to an estimate that is inherently imprecise under the applicable financial reporting framework.
2. The introduction of the term 'low inherent risk' is problematic given the lack of definition or parameters around what constitutes a low inherent risk as well as the disconnect to ISA 315 where the risk of material misstatement is what determines the nature, extent and timing of audit effort. Accordingly, the AUASB considers that the risk of material misstatement is a current approach for driving scalability rather than a new concept of inherent risk in isolation. Furthermore, the interpretation of this standard, and which estimates are captured, may be an impediment to the clear IAASB objective of scalability. Estimates by their nature are judgemental and based on the examples presented in the standard, it is questionable as to whether all but the simplest of estimates would have an inherent risk other than low associated with it.
3. When inherent risk is not considered to be low, it is likely that some estimates will fit into all 3 categories (complexity, judgement, estimation uncertainty) which we don't believe was the intention of the revised standard. This may lead to confusion as to the extent of audit effort, may limit the exercise of professional judgement and again may be an impediment to achieving scalability.

4. While improved and additional application material and illustrative examples may be beneficial, the AUASB considers that the standard, and in particular the application material, is too verbose. The verbosity of the standard increases the risk of the standard becoming overly prescriptive and rules based leading to a diminution of auditor's professional judgement and scepticism that may result in an unintended decline in audit quality.
5. In our view, the root cause of any perceived shortcomings in the application of professional skepticism in relation to accounting estimates and related disclosures may invariably be associated with inadequate audit evidence provided to auditors by management and those charged with governance and accordingly may not necessarily be addressed solely through the revision to auditing standards. Stakeholders are concerned that greater onus is being placed on the auditor than the preparer, and the standard appears to be heading down the path of expected re-performance by auditors.

In formulating its response, the AUASB has sought input from its constituents in three principal ways. The first was from hosting a roundtable meeting with stakeholders in three of the large Australian cities - stakeholders that represent a broad range of backgrounds including assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors, preparers and users of financial statements. The second was through an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

The AUASB's detailed responses to the specific questions asked in the Exposure Draft accompany this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact me or Matthew Zappulla at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au)

Yours sincerely,

Roger Simnett  
*Chair*



**Q1: Has ED-540 been appropriately updated to deal with *evolving financial reporting frameworks* as they relate to accounting estimates?**

Accounting estimates are an integral part of financial reporting, often accounting for a large proportion of financial statement line items. Many estimates are complex, involve a significant amount of judgement and they can include significant estimation uncertainty.

The AUASB is supportive of the intentions behind the IAASB's proposed revisions to ISA 540 and plan to improve audit quality by keeping the auditing and quality control standards relevant in the face of continually evolving business environments and pending accounting standard changes (in particular IFRS 9, 15 and 17).

The AUASB however raises several matters that are considered in more detail throughout the body of this response:

- bringing greater precision to an estimate that is inherently imprecise (refer response 5.1);
- scalability of the standard across different types and sizes of entities and accounting estimates (refer response 3 and 4);
- role of management vs auditor (refer response 2.2); and
- length and prescriptiveness of standard (refer response 2.3)

**Q2: Do the requirements and application material of ED-540 appropriately reinforce the application of *professional scepticism* when auditing accounting estimates?**

The AUASB considers that the application of professional scepticism is appropriately reinforced when auditing accounting estimates. While professional scepticism is a general concept that sits across the suite of auditing standards, owing to the nature and significance of this area, the AUASB is supportive that ED 540 does not explicitly reference professional skepticism but rather contains several key concepts that are designed to enhance the auditor's application of professional skepticism including more granular requirements with respect to obtaining audit evidence, indicators of bias and the stand back provisions.

*2.1 Stand back provision*

The IAASB has included concepts that appropriately aligns to and highlight the importance of the exercise of professional scepticism, particularly the inclusion of a stand back provision as introduced by paragraph 22, and considers that this requirement serves as a reminder to practitioners as to the importance of the exercise of professional scepticism in their overall assessment of accounting estimates and related disclosures.

While this stand-back provision is a new requirement of the standard, the AUASB considers that the requirement needs to be more explicit in its wording and call out exactly what the intention of the requirement is, that is, for auditors to stand-back and assess the estimate considering all supporting audit evidence. Additionally, the documentation requirement in paragraph 27 does not address the documentation requirements regarding this provision and there is a level of concern amongst practitioners regarding the extent of documentation that may be required. The AUASB recommends that the documentation requirement or guidance is expanded to address the nature and extent of documentation requirements in relation to the stand back provision.

*2.2 Audit evidence as provided by management*

In our view, the root cause of any perceived shortcomings in the application of professional scepticism in relation to accounting estimates and related disclosures may invariably be associated with inadequate documentation, calculation and models in relation to estimates that are provided to auditors by management and those charged with governance and accordingly

may not necessarily be addressed solely through the revision to auditing standards. Stakeholders are concerned that greater onus is being placed on the auditor than the preparer, and the standard appears to be heading down the path of expecting the auditor to develop a point estimate or range to evaluate reasonableness, for example paragraph A127. Where auditors proceed down the path of reperformance, this in turn limits the exercise of professional scepticism.

### *2.3 Prescriptiveness and language of standard*

The AUASB considers that the standard, in particular the application material, is too verbose, and is becoming overly prescriptive and rules based leading potentially to a checklist mentality and accordingly perhaps a diminution of auditor's professional judgement and scepticism that may result in an unintended decline in audit quality.

Furthermore, the AUASB considers that the language in the standard could be strengthened to further promote the exercise of professional scepticism by being more focused on words that challenge and critically assess rather than corroborate, for example paragraph 19 where the auditor obtains sufficient appropriate audit evidence whether managements point estimate is reasonable. Additionally, the AUASB considers that the wording of the standard is in certain instances, taking the exercise of professional scepticism too far, for example, paragraph A101 indicates that the auditor should look to any other alternative.

### **Q3: Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?**

The AUASB does not consider ED 540 to be sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk. There is no explicit scalability in many of the requirements within the ED which may lead to uncertainty and the auditor undertaking an increased level of work effort across all estimates. Additionally, the AUASB raises concern as to the practicality of how this would work outside significantly large and complex sectors and industries, as well as posing significant practical challenges particularly for mid-tier and smaller practitioners. To avoid overcomplicating the audit response for simple, straight forward estimates, we suggest the requirements and application material are described in a better way some examples of which are in the paragraphs below.

### *3.1 Concept of low inherent risk*

The introduction of the term low "inherent risk" is problematic, given the lack of definition or parameters around what constitutes a low inherent risk as well as the disconnect to ISA 315 where risk of material misstatement is what determines nature, extent and timing of audit effort. The AUASB is concerned around the scalability of the standard being determined by an assessment of inherent risk alone without the consideration of control risk and considers that this may drive a significant uplift in audit effort. ISA 200 determines that the assessment of the risk of material misstatement can be completed as a combined or separate assessment of both controls and inherent risk. The ED is based on a separate assessment, it is not clear how practically, practitioners that perform combined risk assessments when determining the extent of audit effort, will be impacted and potentially for these practitioners, scoping based on inherent risk alone appears contrary to common practice.

The AUASB considers that the risk of material misstatement is what should drive scalability rather than inherent risk in isolation. The AUASB considers that, while the intention of scalability is apparent in the standard, there is not sufficiently flexibility in the requirements and accordingly the AUASB are concerned that practitioners will be auditing estimates because of a checklist mentality and not because of real risk of material misstatement.

### 3.2 Examples of low inherent risk

Estimates by their nature are judgmental, and based on the examples given in paragraph A72, it would appear that all but the simplest of estimates would have an inherent risk other than low associated with it. To this end, it is arguable that almost all estimates would have an inherent risk greater than low. If this is not the IAASBs intention, then to alleviate such concerns, the IAASB could consider providing more extensive examples as to types of estimates that may be considered to have a low inherent risk associated with it, for example employee leave provisions.

However, there is a risk associated with including examples in this context in that this may reduce the degree of professional judgement that can be applied. It may be difficult for practitioners to justify a low inherent risk classification for items given as examples in the standard.

**Q4: When inherent risk is not low (see paragraphs 13, 15 and 17–20):**

**a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?**

**b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?**

The AUASB is supportive of the use of these concepts in the standard, however it is currently unclear whether these concepts are 3 independent constructs or whether they are assessed as a whole and accordingly the level of flexibility afforded to auditors in the design of their audit procedures is unclear. For this reason, we don't believe that there is adequate clarity on helping the auditor answer the key question of "how much is enough".

The current construct of Paragraph 15(b) does not make this point sufficiently clear and paragraph A97 adds further confusion. Furthermore, the AUASB considers that the requirements and application material of this standard is becoming overly prescriptive which may result in a rules-based checklist mentality and diminished exercise of auditor's professional judgement.

### 4.1 Scalability

When inherent risk is not considered to be low, it is likely that some estimates will fit into all 3 categories (complexity, judgement, estimation uncertainty), which we don't believe was the intention of the revised standard. This may lead to confusion as to the extent of audit effort, may limit the exercise of professional judgement and again may be an impediment to achieving scalability.

Stakeholders consistently commented that it is complexity and judgment that drive estimation uncertainty and therefore estimation uncertainty could not be considered as a factor in isolation. Additionally, it was regarded as problematic to compartmentalise judgement and estimation uncertainty, and accordingly stakeholders did not support the categorisation of estimates into the 3 factors. Furthermore, audit procedures undertaken by auditors generally cross categories and accordingly such categorisation may lead to a checklist based approach which may be seen as a limitation to the IAASB objective of scalability (refer to Question 3).

## 4.2 Complexity

The AUASB considers that additional factors as to what constitutes complexity needs to be addressed within the standard, as complexity is a relativity concept, that is not only impacted by the estimate itself, but also by the composition of the audit team and skill set of management. Additional guidance is required in this area and the lack of guidance is highlighted by the consideration of complexity having 6 associated application paragraphs, while judgment and estimation uncertainty have over 20 paragraphs of application material.

### **c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?**

The AUASB has a mixed response to this question, and notes that in some areas, the guidance is too lengthy while in other areas, guidance is seen as lacking.

### *4.3 Overall comments on application material*

While improved and additional application material may be beneficial, the AUASB considers that the standard, including the application material, is too verbose, and is becoming overly prescriptive and rules based leading to diminution of auditor's professional judgement. Additionally, the language and layout of the application material is tending to be background and informative in nature as compared with what we expect application material to constitute, that being, practical examples and other explanatory details and procedures that are included for the purposes of understanding, and complying with, mandatory requirements. To this end, it is becoming difficult to extract the true guidance from the for information/background only material. This background information should be removed from the application material and included in appendices, for example appendix 2.

Furthermore, the AUASB considers that the supplement that was issued by the IAASB to the ED, *Illustration of work effort requirements*, to be beneficial in understanding the flow of the standard, and accordingly deems it appropriate that the diagram is included as an appendix to the standard.

**Q5 and Q6: Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor's range should be developed? Will this approach be more effective than the approach of "narrowing the range", as in extant ISA 540, in evaluating whether management's point estimate is reasonable or misstated.**

**Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor's range to evaluate management's point estimate?**

The AUASB considers that the requirement in paragraph 20 with the associated guidance, appropriately establishes how the auditor's range should be developed and is more effective than the current approach of narrowing the range. However, the AUASB considers that further guidance is required to clarify the expectations of when an auditor's range should be developed and how that range is utilised in evaluating management's point estimate. The AUASB does not consider the requirement in paragraph 23 with the associated guidance to be appropriate to result in a more consistent determination of a misstatement.

### *5.1 Ranges exceeding materiality*

It is not clear whether the ED is introducing the concept that all ranges need to be within materiality – which for many estimates would not be possible. Many estimates are complex,

involve a significant amount of judgement and they can include significant estimation uncertainty. In some circumstances, the estimation uncertainty can lead to a range of possible outcomes that can be many multiples of materiality. In reality, it is not possible to bring greater precision to an estimate that is inherently imprecise under the applicable financial reporting framework.

In the ED, this appears to be addressed in paragraph 20(b) where “other requirements of the applicable financial reporting framework” can be read as referring to materiality. This reference diminishes the exercise of auditor’s professional scepticism and professional judgement and may well stem from regulator concerns regarding how auditors are using auditor’s professional scepticism and professional judgement in the establishment of their ranges and thresholds and holding to them consistently. In practice it is unlikely that ranges set are always within materiality especially as management’s or auditor’s experts engaged by auditors or management (e.g. valuers) do not take materiality into consideration when they set their ranges. The AUASB considers that the standard requires clarity where ranges exceed materiality and application material could be expanded to address types of considerations auditors use in the establishment of setting ranges and thresholds and mechanisms through which an auditor documents and reconsiders those thresholds in the conduct of the audit.

### *5.2 Substantive analytical procedure*

Paragraph A128 deems that where an auditor develops a point estimate or uses an auditor’s range, the auditor is performing a substantive analytical procedure for which ISA 520 is the reference point for further audit requirements. The AUASB identifies that practitioners do not deem their development of a point estimate or range to be a substantive analytical procedure but rather a hybrid of test of detail and substantive analytical procedure, which this exposure draft does not address, (for example when testing derivatives a sample would be tested through independently determining a point estimate or reasonable range). Furthermore, the AUASB suggests that there could be a “hierarchy” built into the standard to guide auditors on when the use of a point estimate or range is most appropriate.

### *5.3 Misstatements*

The AUASB considers that the determination of materiality is still open to interpretation and has not been sufficiently considered within the ED. The AUASB considers that a greater volume of principle based examples would be helpful in the application material or within an Appendix on the use of the point estimate or range and how misstatements are calculated. Visual examples of how the range applies in paragraph A145 could be beneficial.

**Q7: With respect to the proposed conforming and consequential amendments to ISA 500 regarding *external information sources*, will the revision to the requirement in paragraph 7 and the related new additional application material result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources?**

The AUASB is largely supportive of the proposed conforming and consequential amendments to ISA 500 regarding external information sources and considers the proposed amendments to the requirements of ISA 500 to be clear.

However, the AUASB notes that the wide applicability to all standards needs to be carefully considered as in practice this may result in significantly more audit effort than before, as an example, reference to ISAE 3402 type reports. Furthermore, additional application material may be required in ISA 500 as to the extent of audit work required to understand the process in gathering information used in external information sources and may potentially lead to more assurance reporting on controls at service organisations.



In addition, the AUASB considers that more guidance is required where management and the auditor use the same information source. The AUASB currently considers the guidance contained in paragraph A33H to be unclear, particularly where there is only one provider of certain information.

**Q8: In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

- (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-540.**

Not applicable to the AUASB – no further comments.

- (b) Effective Date—Recognizing that ED-540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

The AUASB supports an effective date of financial reporting periods ending approximately 18 months after the approval of a final ISA with earlier application permitted and encouraged.



# AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8**

Meeting Date: 18 July 2017

Subject: Auditor Reporting Project Update

Date Prepared: 10 July 2017

☐ Action Required

☒ For Information Purposes Only

## Agenda Item Objectives

1. To provide an update on the Auditor Reporting project.

## Progress since previous meeting

- The following are available on the AUASB website and have been communicated to stakeholders via the July AUASB Bulletin (refer Appendix 1):
  - ASA 2017-1 *Amendments to Australian Auditing Standards* (ASA 2017-1)
  - ASA 701 Explanatory Statement
  - ASA 701 Basis for Conclusions
  - Frequently asked questions (FAQs) on AQUA Funds and Material Uncertainty Relating To Going Concern
  - Updated Auditor Responsibility Statements
- The following compilations have been lodged with Federal Register of Legislative Instruments and will be released as soon as clearance is received:
  - ASA 210 *Agreeing the Terms of Audit Engagements*
  - ASA 700 *Forming an Opinion and Reporting on a Financial Report*
  - ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
  - ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*

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- *ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- As agreed with the AUASB at the 30 May 2017 meeting, the AUASB Technical Group have separately communicated to auditors of Stapled Security groups.

### **Next Steps**

- The AUASB Technical Group in conjunction with NZAuASB Technical Group, will continue to draft FAQs based on queries received.
- Continue to monitor auditor reporting over the June reporting period, including Stapled Security Groups.
- Commence planning for the post implementation review project.
  - Provide thought leadership on observations of the Enhanced Auditor Reporting, including KAM reporting.
  - Reaching out to stakeholders to obtain evidence about the benefits, the costs, and the issues.
    - Survey auditors
    - Working with academics
    - Working with Canadian AASB in considering cost / benefit for small listed entities.

### **PCAOB Auditor Reporting standard issued**

- Applies to audits conducted under the PCAOB standards.
- Includes a requirement to communicate critical audit matters (CAMs), however the following entities are exempt from this requirement:
  - Audits of emerging growth companies
  - Brokers and dealers
  - Investment companies other than business development companies
  - Employee stock purchase, savings and similar plans
- CAMs are defined as matters that have been communicated to the audit committee, are related to accounts or disclosures that are material to the financial statements, and involved especially challenging, subjective, or complex auditor judgment.
- Whilst the PCAOB's definition of CAMs is different than the definition of key audit matters in ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, it is likely that similar matters would be identified.
- The requirement in relation to the description in the auditor's report is substantively the same as ISA 701.

- Also requires communication of audit tenor and includes other improvements to the auditor's report consistent with ISA 700 *Forming an Opinion and Reporting on a Financial Report*.
- Link to standard <https://pcaobus.org/News/Releases/Pages/default.aspx>
- Staggered implementation date as follows:
  - New auditor's report format, tenure, and other information: audits for years ending on or after December 15, 2017
  - Communication of CAMs for audits of large accelerated filers: audits for years ending on or after June 30, 2019
  - Communication of CAMs for audits of all other companies: audits for years ending on or after December 15, 2020

### **Action required**

No specific action required.

### **Material presented**

Agenda Item 8	AUASB Board Meeting Summary Paper
	Appendix 1 - AUASB July Newsletter

# AUASB July Update July 2017

## Introduction

The AUASB newsletter is a snapshot of developments at the AUASB and in international assurance standard setting.

The focus of this month's newsletter is the new enhanced auditor reporting requirements. These are now in effect, meaning auditors will be applying them in the 30 June year end reporting season.

## Latest news

### Auditor Reporting Requirements now in effect

All auditor's reports now look different and communicate more to users. The most significant change is the communication of Key Audit Matters (KAMs) in the auditor's reports for listed entities. AUASB Chair Roger Simnett said, "The aim of the enhanced auditor's report is to increase the public's confidence in both the audit process and the company financial statements".

"The audit report achieves this by providing investors with greater transparency and insights into the auditor's responsibilities, as well as the audit process and the procedures the auditor performed on the KAMs for listed entities".

### New Auditor Reporting FAQs available

New FAQs to assist stakeholders with the implementation of the new requirements have been added to the website. [Read more](#)

### New amending standard ASA 2017-1 issued

The AUASB has issued ASA 2017-1 Amendments to Australian Auditing Standards which amends ASA 210, ASA 700, ASA 701, ASA 800 and ASA 805. [Read more](#).

### Auditor Responsibility Statements updated

The Auditor Responsibility Statements have been updated to accommodate a wider range of audit engagements. They are available via the [AUASB website](#).

### New Release: *Audit Committees: A guide to good practice, 3rd Edition*

An AICD, AUASB and IIA collaboration, this guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice. [Click here for more information and to purchase](#)

## International update

### IAASB

The latest meeting International Auditing and Assurance Standards Board (IAASB) was held



in New York on 19-22 June 2017. Topics on the agenda included:  
quality management at the firm and engagement level  
updates on emerging external reporting, group audits, data analytics, and professional skepticism.  
The meeting papers are available via the [IAASB website](#).

## PCOAB

The US Public Company Accounting Oversight Board (PCOAB) has recently released:  
[AS 3101 The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#): (the equivalent of ASA 700 and 701)  
For public comment: [a proposal](#) in relation to auditor's use of the work of specialists, which strengthens the requirements for evaluation of the work of a specialist employed by the client, or a specialist employed – or engaged – by the auditor.  
For public comment: [a proposal](#) to enhance the requirements that apply when auditing accounting estimates, including fair value measurements.

## [www.auasb.gov.au](http://www.auasb.gov.au)

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## Internal audit

This information sheet (INFO 221) provides guidance to assist organisations that are considering whether to have an internal audit function, and to ensure the quality of this function. It may be relevant to directors and audit committees of entities subject to the ASX principles.

This information sheet explains:

- [what internal audit is](#)
- [what the ASX Corporate Governance Principles say about having an internal audit function](#)
- [how to maintain the internal audit function's independence](#)
- [how the quality of internal audit work can be assured](#)
- [where to get more information](#).

## What is internal audit?

An internal audit function can contribute to corporate governance by providing an organisation's directors and audit committee with independent reviews of, and suggestions for, improving the design and operation of the organisation's:

- financial and non-financial control environment
- processes for identifying and monitoring risks
- governance processes.

Internal audit can be an important element in the control environment of organisations and can contribute to more effective risk management.

## What do the ASX Corporate Governance Principles say about having an internal audit function?

The [ASX Corporate Governance Principles and Recommendations \(PDF 1.4MB\)](#) state that if a listed entity does not have an internal audit function, they need to explain the reason for this. Additionally, they should explain how risk management and internal control processes are managed, evaluated and continually improved in the absence of an internal audit function.

## How can internal audit be independent?

In order to ensure the independence of the internal audit function from management:

- the internal audit function should report directly to the audit committee, rather than the management of the organisation
- the internal audit charter and plan should be reviewed and approved by the audit committee, who should also receive and review reports on internal audit engagements, and monitor the performance and independence of the internal audit function

- while the internal audit budget may be set with the chief executive officer, the appropriateness of the budget should be reviewed by the audit committee.

Internal audit services may be provided by employees, external service providers or a combination of the two. However, the external auditor should generally not also provide internal audit services to the same organisation.

## How is the quality of internal audit work assured?

Internal audit should maintain a quality assurance and improvement program, including workpaper reviews and performance evaluations. Periodic external reviews of internal audit may also be appropriate.

## Where can I get more information?

- [The Institute of Internal Auditors Australia](#)
- [Internal Audit in Australia](#) – a publication by the Institute of Internal Auditors Australia.
- [International Standards for the Professional Practice of Internal Auditing](#)

## Important notice

Please note that this information sheet is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice. You should also note that because this information sheet avoids legal language wherever possible, it might include some generalisations about the application of the law. Some provisions of the law referred to have exceptions or important qualifications. In most cases your particular circumstances must be taken into account when determining how the law applies to you.

This is **Information Sheet 221 (INFO 221)**, issued on 20 June 2017. Information sheets provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 9(b)  
**Meeting Date:** 18 July 2017  
**Subject:** Submission to Accounting and Professional & Ethical Standards Board (APESB) on the IESBA Exposure Draft on *Proposed Application Material Relating to Professional Scepticism and Professional Judgement*  
**Date Prepared:** 11 July 2017

☐

Action Required

☒

For Information Purposes Only

## Agenda Item Objectives

To provide to the AUASB with a copy of the draft AUASB submission to the APESB in relation to the IESBA exposure draft.

## Background

- The IESBA released the exposure draft on 11 May 2017 with an invitation to comment period closing on 25 July 2017.
- The AUASB technical group discussed the exposure with the Chair and it was decided that given there were no issues identified, the AUASB would not be making a submission to the IESBA.
- The AUASB technical group discussed the exposure draft with the APESB technical staff and it was agreed that the AUASB would provide comments on the exposure draft directly to the APESB indicating our support for the proposed changes to APES 110.
- In deciding on this approach, the AUASB technical group took comfort in the work performed in relation to the amendments by the tripartite Professional Scepticism Working Group established by the IESBA, the IAASB, and the International Accounting Education Standards Board (IAESB).

## Material Presented

Agenda Item 9(b) AUASB Board Meeting Summary Paper  
Agenda Item 9(b).1 Submission to APESB on IESBA Exposure Draft on *Proposed Application Material Relating to Professional Scepticism and Professional Judgement*

## Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Submission to APESB on IESBA Exposure Draft on <i>Proposed Application Material Relating to Professional Scepticism and Professional Judgement</i>	For noting	AUASB	18 July 2017	

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10 July 2017

The Hon. Nicola Roxon  
Chairman  
Accounting Professional & Ethical Standards Board Limited  
Level 11, 99 William Street  
Melbourne Vic 3000

Dear Nicola,

**Re: International Ethical Standards Board (IESBA) Exposure Draft - *Proposed Application Material Relating to Professional Skepticism and Professional Judgement***

As discussed with Channa Wijesinghe at a meeting held between the APESB staff and the AUASB staff on 5 July 2017, the AUASB will not be making a formal submission to the IESBA in relation to the exposure draft above, and have instead opted to provide comments directly to the APESB.

The AUASB make the following comments in relation to the exposure draft:

- The AUASB is supportive of the proposed amendments to APES 110 *Code of Ethics for Professional Accountants*, as they provide additional clarity as to how APES 110 supports the application of professional scepticism and professional judgement.
- The AUASB also supports the work in relation to this exposure draft that was conducted by the tripartite Professional Scepticism Working Group that was established by the IESBA, the International Auditing and Assurance Standards Board (IAASB), and the International Accounting Education Standards Board (IAESB).

We look forward to the ongoing engagement between the Boards in relation to matters of mutual interest.

Please do not hesitate to contact me at [rsimnett@auasb.gov.au](mailto:rsimnett@auasb.gov.au) or Matthew Zappulla, Technical Director at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au) if there are any matters you would like to bring to our attention.

Yours sincerely,

Roger Simnett  
Chairman



# AUASB Board Meeting Summary Paper

## AGENDA ITEM NO. 9(c)

**Meeting Date:** 18 July 2017  
**Subject:** Speaking Register  
**Date:** 4 July 2017

☐ Action Required

☒ For Information Purposes Only

Presenter	Date	Presenting to	Topic
Justin Reid	26/27 January 2017	IAASB / French Accounting Bodies at the SMP/SME conference in Paris	Overview of the Australian Jurisdictional Environment
Merran Kelsall (Anne Waters in attendance)	27 February 2017	Stakeholders in Perth	Panel discussion - Changes to Auditor Reporting
Matthew Zappulla	7 April 2017	CA ANZ Audit Conference	AUASB/IAASB update
Roger Simnett (Matthew Zappulla and Marina Michaelides in attendance)	5 May 2017	KPMG IR Session	Panel discussion – There is a solution on EER
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	8 May 2017	Stakeholders in Brisbane	Roundtable on ISA 540 ED
Roger Simnett (Matthew Zappulla and Anne Waters in attendance)	9 May 2017	Stakeholders in Brisbane	Panel discussion - Changes to Auditor Reporting
Justin Reid (Matthew Zappulla and Marina Michaelides in attendance)	10 May 2017	CER Audit and Assurance Update in Melbourne	AUASB Update (including Auditor Reporting and ASAE 3100)

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<b>Presenter</b>	<b>Date</b>	<b>Presenting to</b>	<b>Topic</b>
AASB/AUASB all staff	15 May 2017	Emerging Issues Discussion Meeting in Melbourne	AUASB update
Justin Reid	17 May 2017	CER Audit and Assurance Update in Sydney	AUASB Update (including Auditor Reporting and ASAE 3100)
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	19 May 2017	Stakeholders in Melbourne	Roundtable on ISA 540 ED
Roger Simnett and Matthew Zappulla	25 May 2017	ACAG FRAC Meeting in Melbourne	AUASB update
Matthew Zappulla	1 June 2017	Large Networks Discussion Meeting in Melbourne	AUASB update
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	5 June 2017	Stakeholders in Sydney	Roundtable on ISA 540 ED
Roger Simnett	15 June 2017	National Standards Setters (NSS) – meeting in New York	Audit and Assurance developments in Australia
Justin Reid	16 June 2017	Stakeholders in Melbourne	Moore Stephens National Audit Conference – AUASB update
Roger Simnett	29 June 2017	Company Directors in Sydney	Launch of Audit Committee Guide with the AICD
Roger Simnett	2 July 2017	Auditing and Assurance Special Interest Group Conference in Adelaide	Undertaking Research With Impact / Engaging with the AUASB

### **Future events**

<b>Presenter</b>	<b>Date</b>	<b>Presenting to</b>	<b>Topic</b>
Matthew Zappulla	3 August 2017	CA ANZ NOCLAR Session in Melbourne (with APESB)	ASA 250

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# AUASB Board Meeting Summary Paper

## AGENDA ITEM NO. 9(c)

**Meeting Date:** 18 July 2017  
**Subject:** Speaking Register  
**Date:** 11 July 2017

☐ Action Required

☒ For Information Purposes Only

Presenter	Date	Presenting to	Topic
Justin Reid	26/27 January 2017	IAASB / French Accounting Bodies at the SMP/SME conference in Paris	Overview of the Australian Jurisdictional Environment
Merran Kelsall (Anne Waters in attendance)	27 February 2017	Stakeholders in Perth	Panel discussion - Changes to Auditor Reporting
Matthew Zappulla	7 April 2017	CA ANZ Audit Conference	AUASB/IAASB update
Roger Simnett (Matthew Zappulla and Marina Michaelides in attendance)	5 May 2017	KPMG IR Session	Panel discussion – <b>There is a solution</b> – Integrated Reporting (encompassing Integrated Thinking): how can our corporate reporting system support effective decision-making to create value for the short, medium and longer-term?
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	8 May 2017	Stakeholders in Brisbane	Roundtable on ISA 540 ED
Roger Simnett (Matthew Zappulla and Anne Waters in attendance)	9 May 2017	Stakeholders in Brisbane (Hosted by CPA Australia)	Panel discussion - "The New Auditor's Report"
Justin Reid	10 May 2017	CER Audit and	AUASB Update

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<b>Presenter</b>	<b>Date</b>	<b>Presenting to</b>	<b>Topic</b>
(Matthew Zappulla and Marina Michaelides in attendance)		Assurance Update in Melbourne	(including Auditor Reporting and ASAE 3100)
AASB/AUASB all staff	15 May 2017	Emerging Issues Discussion Meeting in Melbourne	AUASB update
Justin Reid	17 May 2017	CER Audit and Assurance Update in Sydney	AUASB Update (including Auditor Reporting and ASAE 3100)
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	19 May 2017	Stakeholders in Melbourne	Roundtable on ISA 540 ED
Roger Simnett and Matthew Zappulla	25 May 2017	ACAG FRAC Meeting in Melbourne	AUASB update
Matthew Zappulla	1 June 2017	Large Networks Discussion Meeting in Melbourne	AUASB update
Roger Simnett, Matthew Zappulla, Rene Herman and Anne Waters	5 June 2017	Stakeholders in Sydney	Roundtable on ISA 540 ED
Robert Buchanan	15 June 2017	National Standards Setters (NSS) – meeting in New York	Reporting and auditing of service performance information
Roger Simnett	15 June 2017	National Standards Setters (NSS) – meeting in New York	Audit and Assurance developments in Australia
Justin Reid	16 June 2017	Stakeholders in Melbourne	Moore Stephens National Audit Conference – AUASB update
Roger Simnett	29 June 2017	Company Directors in Sydney	Launch of Audit Committee Guide with the AICD
Roger Simnett	2 July 2017	Accounting and Finance Association of Australia and New Zealand - Conference in Adelaide	Undertaking Research With Impact: Engaging with the AUASB

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## Future events

Presenter	Date	Presenting to	Topic
Matthew Zappulla	3 August 2017	CA ANZ NOCLAR Session in Melbourne (with APESB)	ASA 250

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