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From: Sylvia van Dyk
Sent: Friday, 7 July 2017 1:06 p.m.
To: Sharon Walker
Subject: Fwd: IAASB's Exposure Draft on ISA 540 - Auditing Accounting Estimates



Sent from my iPad

Begin forwarded message:

From: Gabrielle Wheddon <Gabrielle.Wheddon@oag.govt.nz>
Date: 3 July 2017 at 4:36:05 PM NZST
To: Sylvia van Dyk <Sylvia.vanDyk@xrb.govt.nz>
Cc: Roy Glass <Roy.Glass@oag.govt.nz>
Subject: IAASB's Exposure Draft on ISA 540 - Auditing Accounting Estimates
Hi Sylvia,

This email confirms that we will be making a submission on behalf of the OAG and Audit New Zealand to the IAASB on its Exposure Draft: Proposed ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures (ED-540).

We are currently in the process of preparing our submission and have identified the following key areas for comment. These will form the basis of our response to the IAASB.

The language used in, and writing style of, the Exposure Draft
In our view, the standard uses excessively long sentences. Also, we feel that some of the some of the language used is vague and this makes it difficult to understand what is intended.

For example paragraph 4 “This ISA focuses the auditor’s attention on designing and performing further audit procedures (including, where appropriate, tests of controls) responsive to the reasons for the assessment to the assessed risks of material misstatement, particularly when those reasons include complexity, judgment or estimation uncertainty.”

We believe that this has the effect of confusing the reader, which is likely to mean that key concepts will not be clearly understood and applied.

Unnecessary content within the Exposure Draft
There are a number of sections which either:
State the obvious;

Discuss fundamental concepts which should be well understood by auditors (and are not specific to auditing estimates); or
Repeat issues already discussed in the Exposure Draft.

This has the effect of making the standard longer than it needs to be and potentially detracts from the expectation that auditors should be applying their own professional judgement to each engagement, based on their knowledge and understanding of the entity subject to audit and its operating environment.

Examples of this include:

Paragraphs A39-A41 which give examples of types of data, sources of data and matters which auditors might consider when assessing data.

Paragraph A96 "If the further audit procedures in paragraph 15(a) do not provide sufficient appropriate audit evidence, the auditor is required by ISA 330 to design and perform other procedures."

Paragraph A71 "Paragraph 13 requires the auditor, in identifying and assessing the risks of material misstatement, to take into account the extent to which the accounting estimate is subject to, or affected by relevant factors, including complexity, the need for the use of judgement by management in making the estimate, and estimation uncertainty." This essentially summarises and repeats the content of Paragraph 13.

Application of the standard in a public sector context

It is our view that the Exposure Draft has been written with auditors of large financial institutions, or entities with complex estimates, in mind. We believe that there has been insufficient consideration of the impact of the proposed changes for auditors of public sector entities.

The assessment of inherent risk as either "low" or "not low"

The effect of Paragraph 15 is that auditor's initial assessment of whether the inherent risk is "low" or "not low" becomes the trigger point for what additional work is required.

Is this an appropriate trigger point?

In our view, this is not the appropriate trigger point. In other auditing standards (e.g. ISA 315 and ISA 330) the trigger point for initiating further audit work is when the risk is "significant". We believe that the emphasis on "significant" risk should be consistently applied across all Standards.

Concerns relating to the potential increase in work effort from an auditor's perspective

We are also concerned that by setting the threshold at the point where inherent risk is assessed as "not low" may lead to a significant increase in the level of work that auditors are required to do. In some circumstances, the increase in work effort may not be necessary, especially if the accounting estimate is of a significant magnitude, but is simple in nature, or if the entity has effectively introduced strong internal controls to mitigate any inherent risks.

Insufficient emphasis on related disclosures

We do not consider that the exposure draft includes sufficient emphasis on the disclosures related to estimates.

We will provide a copy of our submission to the XRB, when we send it to the IAASB.

**Thanks
Gabrielle**

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