

1 August 2017

The Technical Director
IESBA Technical Director

Dear Sir/Madam

ICAZ Submission – Proposed ISA 540 Revised -Auditing Accounting Estimates and Related Disclosures

In response to your request for comments **on Exposure Draft “Proposed ISA 540 Revised - Auditing Accounting Estimates and Related Disclosures”**, attached is the comment letter prepared by the Institute of Chartered Accountants of Zimbabwe. The comment letter is a result of deliberations of the Auditing and Professional Standards Committee (APSC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

M De Beer (KPMG)
Chairperson of the APSC

Elliot Wonenyika (CAA)
Project Director

Cc: Matthews Kunaka (ICAZ C.E.O)

Discussion Paper “Proposed ISA 540 Revised -Auditing Accounting Estimates and Related Disclosures.”

SPECIFIC COMMENTS

Question 1

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

RESPONSE

Yes, ED-540 incorporates enhanced requirements for risk assessment procedures and guidance of the auditor’s work effort in responding to the assessed risks of material misstatement. With the fast approaching adoption of IFRS 9 and vast use of estimates in the accounting treatment of Financial Instruments the update of ED-540 is appropriate to deal with evolving financial reporting frameworks as they relate to accounting estimates. Enhancing requirements on risk assessment will result in the standard becoming more scalable to the audit of different types of financial instruments.

Question 2

Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?

RESPONSE

With the appreciation that accounting estimates are complex, there is need for the use of judgment by management, and estimation uncertainty, ED-540’s key provisions enhance the auditor’s application of professional skepticism and consideration of the potential for management bias. ED- 540 includes enhanced risk assessment requirements, more granular requirements with respect to obtaining audit evidence, and requirements to “stand back” and evaluate the audit evidence obtained. These conditions reinforce the application of professional skepticism.

According to ISA 220 paragraph 15 the auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. Therefore, requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates.

Question 3

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

RESPONSE

Yes, ED – 540 encourages auditors when dealing with accounting estimates with low inherent risk, to determine whether one or more specific further audit procedures will provide sufficient appropriate audit evidence in the circumstances as per paragraph 15 of ISA 540 Revised. Also given the enhanced requirements on risk assessment which will make the ED scalable to differing circumstances.

Question 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?

RESPONSE

Yes, the requirements compliment the application of ISA 315 and ISA 330 where the auditor is required to design and perform further audit procedures to respond to the assessed risks of material misstatement including significant risk (when inherent risk is not low at assertion level – accounting estimates)

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?

RESPONSE

Totally support the requirement, it attempts to counter the complexities faced by auditors and help to meet the objectives of ED-540. Accounting estimates in accordance with IFRS 9 and other recent financial reporting standards will often give rise to greater estimation uncertainty, require greater use of modelling and forward-looking information, and involve the need for an enhanced control or governance environment.

The requirement is a sound step approach to identifying risk of material misstatement in accordance with accounting estimates in terms of disclosures that explain the basis on which accounting estimates have been made and the significant judgments and assumptions involved.

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?

RESPONSE

Yes.

Question 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?

RESPONSE

The requirement appropriately establishes how the auditor’s range should be developed for reasonable amounts that are supported with audit evidence. The auditor may develop a point estimate or a range in several ways leaving this method open to subjectivity however, appears more effective than narrowing the range. Also narrowing the range may become too prescriptive resulting in failure to respond to the specific circumstances faced by the auditor.

Question 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?

RESPONSE

Yes, the application material coupled with an auditor’s use of auditor’s range to evaluate management’s point estimate helps to identify misstatements arising due to fraud or error as per ISA 450 resulting in more consistent determination of a misstatements.

QUESTION 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?

RESPONSE

A distinction between a third-party pricing source and a management's expert will result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources. For a management expert, other factors for example independence and ISA 620 requirements "Using the work of others" will have to be considered intensively to determine the extent of reliance on information from third parties.

QUESTION 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.

RESPONSE

None

(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.

RESPONSE

18 months is a fair space of time to obtain a thorough understanding of the revised standard and to set up implementation, it is appreciated that earlier application would be permitted and encouraged.