



30 April, 2007

Our ref: ICAEW Rep 34/07

Mr Jim Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Dear Mr Sylph

Proposed ISA (Revised and Redrafted) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Proposed Revised and Redrafted ISA 540 published by IAASB in December 2006.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

Overall, we believe that the clarification reformatting has resulted in a more readable and user-friendly document than previous versions. However, changes to the requirements and application material are needed to ensure consistency of interpretation and improved audit quality, as explained below.

We particularly welcome the combination of ISAs 540 and 545.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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Objective

Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

Yes. The objective is oriented to the outcome of the financial statements being free of material misstatement and requires the use of judgement by auditors.

Requirements

Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?

Not in the following cases:

1. The final part of the paragraph 9 beginning with the words *and whether* is unnecessary, as it is covered by paragraph 8 (c), the first part of paragraph 9 and paragraphs A31 and A35. **The final part of paragraph 9 beginning with the words *and whether* should be deleted or moved to the application material.**
2. **The last sentences in A32 and A66 significantly circumscribe the application of paragraphs 13 and 9 and should therefore be moved to the requirements section.**
3. The reference in paragraph 12 to the use of experts is too all-encompassing. Consideration of the need for the use of experts will not be required in virtually all cases and indeed will not be needed in the vast majority of small entity audits. **Paragraph 12 should either be moved to the application material or a reference made to the need for the auditor to consider whether he has the requisite skill and experience to audit accounting estimates in accordance with ethical requirements.**
4. **13 (b) (i-ii) and 13 (d) (i-ii) represent unnecessary detail in requirements and should be relegated to the application material.**
5. Paragraph 10 (b) relates to A86 and should be referenced thereto.

Combination of ISAs 540 (Revised) and 545

Comments on the proposed combination of ISA 540 and 545, its effect on the content of the ISA and the proposed withdrawal of ISA 545

We support the proposed combination of ISA 540 and 545 and the proposed withdrawal of ISA 545.

We are aware that there are some outstanding concerns about the scope and auditability of fair value measurements and disclosures which we have highlighted in our recent response to IAASB on its Strategic Review Questionnaire.

The combination of the two documents has resulted in extensive application material and we believe that there would be significant value in performing a further exercise to eliminate duplication and overlap. The level of internal cross-referencing in the application material is evidence that further thought might be given to the rationalisation of this material. For example, A92 is not really necessary. A72 is covered by a combination of A27 bullet 1 and A86. A107 could be merged with A9 and paragraph 19 referred back to the merged paragraph. The first three sentences of A86 are unnecessary as they merely repeat other requirements and guidance. A15 and A21 (particularly the first

part thereof and the first bullet) cover the same area and could be merged or otherwise rationalised. A74 is a mere repetition of ISA 330. In all of these cases, it is no doubt possible to argue that the existing wording is necessary but the cumulative effect of these apparent duplications and overlaps renders the application material indigestible.

Audit Documentation

Comments on the inclusion of a specific proposed documentation requirement in ISA 540

We agree that specific audit documentation requirements in individual ISAs may undermine ISA 230 insofar as they effectively duplicate the requirements of ISA 230 to document significant matters, audit conclusions and audit judgments. Paragraph 21 (a) clearly falls within the scope of ISA 230. To leave paragraph 21 (b) on its own would appear odd and it is easily construed as being covered not only by ISA 230 but also ISAs 240 and 540. **Paragraph 21 should therefore be removed.**

We have no specific comments on smaller entities or the public sector.