



**International Federation of Accountants**

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# Agenda Item 10

**Committee:** IAASB

**Meeting Location:** Washington, D.C.

**Meeting Date:** December 10-14, 2007

## **Accounting Estimates, Including Fair Value Accounting Estimates**

### **Objectives of Agenda Item**

To review a revised draft of proposed ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” for approval as a final ISA.

### **Task Force Composition**

The members of the task force are:

Philip Ashton (Chair)	IAASB Technical Advisor
Jon Grant	IAASB Technical Advisor
Edmund R. Noonan	External Member

### **Activities since Last IAASB Discussions**

The task force held a physical meeting in October 2007 to discuss the comments received on the revised draft from the September IAASB and IAASB CAG meetings and incorporate final changes into the proposed revised ISA.

### **Matters for IAASB Consideration**

#### *Determining the Need to Use an Auditor’s Expert or Another Specialist*

At the September IAASB meeting, the IAASB debated the requirement for the auditor to determine whether to use an expert. It was determined that as previously drafted, the requirement did not adequately address the procedures the auditor should perform and was duplicative of requirements in other ISAs.

The task force continues to be of the view that including emphasis for the auditor to consider whether additional personnel who do not meet the definition of an auditor’s expert should be included in the engagement team is necessary and in fact reflects what most often occurs in practice with regard to accounting estimates. As such, a new definition for an “accounting or auditing specialist” has been included in the ISA, and the requirement has been redrafted to focus on the auditor’s consideration of whether an auditor’s expert or an accounting or auditing specialist would be needed in order to respond to the assessed risks of material misstatement.

*Conforming Amendment to ISA 240 (Redrafted)*<sup>1</sup>

At the September IAASB meeting, it was noted that the linkage between the retrospective review required by ISA 240 (Redrafted) and what is required by proposed ISA 540 (Revised and Redrafted) could be made clearer. As a result, modifications have been made to paragraph 41 of proposed ISA 540 (Revised and Redrafted). In making these changes, the task force believed that a corresponding change could be made to ISA 240 (Redrafted) to further illustrate the interaction of the two ISAs. The IAASB is asked for its views on the conforming amendment, included in Agenda Item 10-A.

*Should Proposed ISA 540 (Revised and Redrafted) be Re-exposed?*

The task force is of the view that the changes to proposed ISA 540 (Revised and Redrafted) respond to the comments received on the exposure draft, and that there are no substantial changes that warrant re-exposure of the proposed ISA as a whole. Further, the task force does not believe that any substantial changes have arisen from matters not aired in the exposure draft or that the proposed ISA contains any substantial changes arising from matters not previously debated by the IAASB.

Specifically, no new requirements have been added to what was presented in the exposure draft, nor have any requirements been deleted. The changes made to the requirement for the auditor's determination of the need to use the work of an auditor's expert, as discussed above, now allow for more flexibility in the auditor's determination of the need for expertise on the engagement, which responds to the majority of the respondents. The modification to the objective and the corresponding tailoring of requirements to highlight the auditor's procedures with respect to disclosures has not changed the intention in the exposure draft.

While additional application and other explanatory material has been added as a response to the call for more guidance on the audits of fair value accounting estimates, the task force does not believe that providing these further examples constitutes a substantial change.

*Other Matters*

The proposed changes as a result of the task force's consideration of the comments received from the IAASB and IAASB CAG have been incorporated into Agenda Item 10-A, which will form the basis for the discussions at the meeting.

**Material Presented**

Agenda Item 10-A (Pages 3483 – 3528)	Revised Draft of Proposed ISA 540 (Revised and Redrafted) (Mark-up from September meeting)
Agenda Item 10-B (Pages 3529 – 3570)	Revised Draft of Proposed ISA 540 (Revised and Redrafted) (Clean)

**Action Requested**

The IAASB is asked to consider the revised proposed ISA for approval as a final standard.

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<sup>1</sup> ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."