



THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

P. O. Box GP 4268

Accra, Ghana

Tel.: 0288700101; 0288700111;

0288700222; 0288700333; 0288700444;

0544336701; 0277801422

E-mail: info@icagh.com; icaghana@gmail.com

Website: www.icagh.com

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The Technical Director,
International Auditing and Assurance Standards Board
New York

Dear Sir,

PROPOSED INTERNATIONAL STANDARD ON AUDITING 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES.

Thank you for giving us the opportunity to comment on your draft on “Proposed International Standard on Auditing 540 (Revised) – Auditing Accounting Estimates and Related Disclosures”. We submit herewith our comments and proposal for your perusal. We appreciate the opportunity given to us to add our voice to the IAASB’s upcoming standard on Auditing Accounting Estimates and Related Disclosures. We acknowledge the importance of such guidance in the face of increased use of Accounting Estimates in the preparation of Financial Statements. While we agree that such a guidance will be important we have the following comments. Our comments are based on the questions raised in the discussion paper.

Overall Questions

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

Yes, we believe that the ED 540 has been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates.

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

Yes, we believe that the ED 540 appropriately reinforce the application of professional scepticism when auditing accounting estimates. The auditor has to understand how management identifies transactions; makes accounting estimates; and understand internal controls, in evaluating the appropriateness of accounting estimates applied in the management of an entity. Also the auditor has to “look-back” on Prior Year estimates which will reinforce the understanding of accounting estimates applied in the preparation of the financial statements.

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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?

Yes, we believe that the ED 540 is sufficiently scalable with respect to auditing accounting estimates, even when the inherent risk is low.

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?

Yes, we believe that the requirements of the ED 540 are more effective to identify and assess the risk of material misstatements relating to accounting estimates. In assessing the inherent risks associated with the accounting estimates applied by management in the preparation of financial statements, the auditor has to consider the complexity and nature of the transaction or item, the judgment by management, potential for management bias, and uncertainty in estimation. All these appear to address identification & assessment of risk inherent in 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?

Yes, we do support the requirement in ED 540 that the auditor has to take into account those relevant factors that affect accounting estimates in his assessment of risk inherent in accounting estimates.

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?

Yes, we believe that there are sufficient guidance in relation to the proposed objectives-based requirements raised in the ED 540.

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?

Yes, we think that the requirement in the said paragraph appropriately establish how the auditor should develop his range, in evaluating whether management’s point estimate is reasonable or misstated. This method is more expansive. “Narrowing the range” method is a bit more limited.

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?

Yes, we believe so as long as general guidance is provided.

Conforming and Consequential Amendments

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? **Yes, we believe that the revision to the requirement in paragraph 7 and related application material will result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources.**

We hope the IAASB finds this letter helpful in further developing its proposals to revise certain provisions of the ISA 540. In turn, we are committed to helping the IAASB in whatever way possible to build upon the results of this Exposure Draft. We look forward to strengthening the dialogue between us. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Yours sincerely,



Augustine Addo

(Ag. Chief Executive Officer)