



**Working Group on  
Financial Audit Guidelines**

Mr. James M. Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

**Subject: Proposed Revisions to International Standard on Auditing No. 540 – Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)**

This letter provides the comments of the Working Group on Financial Audit Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI) on the proposed revisions to International Standard on Auditing (ISA) No. 540 - *Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)*, issued December 2004. The Working group on Financial Audit Guidelines comprise of experts from the Supreme Audit Institutions of Canada, Cameroon, Namibia, Norway, United States, United Kingdom and Sweden and the comments reflect the opinion of the experts. The Working group also encourages the respective Supreme Audit Institutions to provide comments to proposed International Standards of Auditing.

We commend the International Auditing and Assurance Standards Board (IAASB) for its proposal to enhance the current standard by adding: 1) an analytical framework throughout the proposed standard, 2) the increased emphasis on consideration of potential management bias, 3) the more comprehensive risk assessment procedures, and 4) the new requirement to review outcomes of prior period estimates. The proposed revisions build upon the existing ISA, adding new levels of guidance that provide an overall analytical framework to the auditor for evaluating evidence and determining whether misstatements exist in accounting estimates. We also believe that the proposed standard will add rigor and professional skepticism to the auditing of accounting estimates.

Overall, we support the proposed standard. The enclosure to this letter contains the INTOSAI Working Group's suggestions for adding clarity and rigor to the provisions of the proposed standard listed below. While we are not separately

offering comments geared only toward public sector audits, we believe that our suggested changes to the proposed standard would strengthen audits in both the private and public sectors.<sup>1</sup>

- Examples of Common Accounting Estimates (paragraph 2)
- Identifying Circumstances that Require Accounting Estimates (paragraphs 4 and 9)
- Including Consideration of Management Bias in the Auditors' Risk Assessment (paragraph 9)
- Reviewing the Outcome of Prior Period Accounting Estimates (paragraph 20)
- Reliability of Data Used in Estimates (paragraphs 30 and 32)
- Accounting Estimates with Significant Risks (paragraph 48)
- Known Misstatements Involving Subjective Decisions (paragraphs 69 – 71)
- Examples of Management Bias (paragraph 77)
- Disclosure (paragraph 79)
- Documentation (paragraph 84)

Please note that throughout this document, our suggested additions are indicated with underlined text.

We thank you for considering our comments on this important standard, and we welcome the opportunity to work with the IAASB to develop strong globally accepted auditing standards for use in both the public and private sectors.

Sincerely yours,



Kjell Larsson  
Auditor General

The Working Group on Financial Audit Guidelines

Enclosure

---

<sup>1</sup> In the future, INTOSAI Working Group may supplement this ISA with a practice note to provide supplemental guidance on implementing this standard in the public sector.

