



**Our Ref: PSD/CP03/2017**

31 July 2017

Matthew M. Waldon  
Technical Director  
The International Auditing and Assurance Standards Board (IAASB)  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York NY 10017

Dear Sir

**Re: Exposure Draft on proposed International Standard on Auditing 540 (revised) - Auditing Accounting Estimates and Related Disclosures**

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft on proposed International Standard on Auditing 540 (revised) - Auditing Accounting Estimates and Related Disclosures. This letter provides our comments on the International Auditing and Assurance Standards Board's ITC for consideration.

ICPAK commends the IAASB's initiative to propose revisions to International Accounting Standard on Auditing 504, which seeks to establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

We attach hereto an appendix with our responses to questions for specific comment.

Should you wish to discuss the contents of this letter or require further elaboration on any of the items presented herein, please do not hesitate to contact us at [icpak@icpak.com](mailto:icpak@icpak.com) or alternatively the undersigned at [cliff.nyandoro@icpak.com](mailto:cliff.nyandoro@icpak.com).

Yours faithfully,

**Cliff Nyandoro**  
**For: ICPAK-Professional Standards Committee**

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

The ED recognizes the increasing complexity, use of judgement and estimation uncertainty created by more recent changes to global financial reporting frameworks including standards such as IFRS 9 on Financial Instruments. On the whole the standard has been appropriately updated to reflect the heightened audit risks arising from the application of such accounting estimates and the disclosures related thereto.

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

The ED and accompanying material do reinforce the application of professional skepticism in the application of audit procedures to accounting estimates. There is appropriate recognition of levels of risk of misstatement including inherent risks as well as due importance to the need to consider when specialized skills and knowledge are required.

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

Paragraphs 15 of the ED provides very useful guidance on how the auditor can apply a varying degree of audit procedures to the audit of accounting estimates depending on whether inherent risk is low or not. Specifically, the types of audit procedures set-out under paragraph 15(a) are sufficiently clear to provide the auditor with 3 possible audit responses to accounting estimates with low inherent risk.

However, rather than use 'low vs. not low inherent risk' terminology, which can be subjective and ambiguous, it may be preferable to define accounting estimates that are clearly not of 'low inherent risk' upfront (i.e. define complexity, judgement and estimation uncertainty) as included within paragraphs 17 – 19 of the ED

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 the requirements in the above paragraphs will support more effective identification, assessment and responses to risk of material misstatement. However, we suggest that the requirements in paragraph 18c also be included within paragraph 17 and 19. The reasoning for this is that in each of the risk reasons (being complexity, judgement and estimation uncertainty), it would be essential where a model is used, whether complex or not, for the auditor to determine suitability of the model under the measurement principles of the financial reporting framework, changes from any previous models (historical experience and accuracy) and testing any modifications to the model for consistency with the measurement objectives).

- 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

- 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 there is, subject to comments question 4(a) above.

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 it does

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 it will

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 they will

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.*

N/A for the Kenyan environment

- 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.*

We agree with the proposed period for implementation together with earlier application being encouraged which would allow auditors apply the standard to developments in IFRS (e.g. IFRS 9, 16 and 17) by the time these standards are effective.