

anan



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Dear Sir,

**RESPONSE TO THE EXPOSURE DRAFT ON PROPOSED
INTERNATIONAL STANDARD ON AUDITING 540 (REVISED)**

AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES.

Association of National Accountants of Nigeria is very pleased to comment on Exposure Draft on Proposed International Standard on Auditing 540. Auditing Accounting Estimates and Related Disclosures.

Our responses to Overall questions (1-7) are set out below:

Proposed Application Material Relating to Professional Skepticism (Paragraph 120.13A1)

Question 1:

The Association of National Accountants of Nigeria (ANAN) believes that Ed 540 has been appropriately updated to deal with evolving financial reporting framework as they relate to accounting estimates. This is because the ED has clarified the several concerns raised in relation to complexity, judgment and estimation uncertainty which are embedded in IFRS 9 and other ISAs. Clearly, the Ed has covered evolving financial framework in relation to recognition, measurement and disclosure of accounting estimates and role of auditor in this respect.

Question 2:

It is the considered opinion of the Association that application material ED appropriately reinforces the application of professional skepticism when dealing with auditing accounting estimates. The reinforcements are evidenced in the key provisions contained in the ED specially designed to enhance the auditor's application of professional skepticism. These include enhancement of risk assessment requirements which provides a better basis for identifying and assessing the risk of material misstatement related to accounting

estimate, robust requirements for obtaining audit evidence when dealing with inherent risk that is low, and the stand back requirements for evaluating audit evidence. These requirements would conscientise the auditor and enhance his inquisitiveness and alertness to circumstances of possible fraud or financial misstatement.

Moreso, the inclusion of the stand back that enables auditors to set aside and re-evaluate the judgment of management especially where the inherent risk is not low, actually reinforce the ability of the auditors to apply the concept of skepticism.

Focus on Risk Assessment Responses

Question 3:

In the Association's opinion, ED 540 does not provide sufficient quantifiable scaling system with respect to auditing accounting estimates when there is low inherent risk because the scaling is subjective and susceptible to individual professional accountant judgment. Nevertheless, the ED provided sufficient guidance that will enable the professional accountant develop appropriate skill when auditing accounting estimates including where there is low inherent risk. In our opinion, it would have been more appropriate if the ED can provide a quantitative scaling system.

Question 4:

(a) The Association believes that the ED, especially paragraphs 13, 15, and 17-20, support a more effective identification and assessment of and responses to risk of material misstatement. These requirements taken together with relevant requirements in ISA 315 revised and ISA 300 sufficiently strengthen the process of identifying and assessing risks and responding to such risks in both complex and ordinary circumstances. The paragraphs also strengthen the management and auditor's use of professional judgment and assessment of estimation uncertainty involving a variety of estimation methods, assumptions and data.

(b) ANAN supports the requirements in ED 540 revised which requires the auditors to take into account the extent to which accounting estimate is subject to or affected by simple or complex factors and the need for management to use judgment as well as the potential for management bias and estimation uncertainty. What that portends is that the auditor can no longer be arm twisted into accepting whatever management provides hook line and sinker without reflecting on its merit.

(c) The Association believes that the ED has provided sufficient guidance in relation to objectives based on requirements in paragraphs 17-19 of the ED. The application and explanatory materials especially 101-134 will help to guide the professional accountants to deal with complexity related to management use of complex model and the nature of judgment required to be used by the professional accountants in assessing management's judgment and the nature of sufficient appropriate audit evidence that must be obtained by the professional accountants when dealing with estimation uncertainty.

The Association, however, observed that the explanatory material and application guidance are not arranged in such a way that will make reference easy for the professional accountants that may wish to read and understand the requirements of the standard.

Question 5:

ANAN considers the requirements in paragraph 20 (and related application material in paragraphs A126-A134) to have appropriately established guidance on when and how the auditor's range should be developed. The paragraphs, taken together, have considered different circumstances and varying factors that will guide the auditors in considering when and how to develop a range or a point estimate to enable him obtain sufficient understanding of the data, assumptions and methods used by management in making accounting estimates and assess whether the estimates are reasonable or misstated. This approach will be more effective than the approach of narrowing the range; as provided in extant ISA 540. This is because the new requirement in paragraph 20 of the ED and paragraphs A128-A134 are more expansive in their consideration of varying circumstances in which the professional accountant may find himself. The Association believes that these requirements will provide an opportunity for the auditor to exercise his personal judgment to treat different cases on their merit.

Question 6:

In the opinion of the Association, the ED has provided enough guidance that will take care of the likely problems to be encountered since the standard requires that the management point estimate to be selected must represent the range of reasonable possible outcome of the measurement process and how the accounting estimate was developed with the requirement to explain the nature, extent and sources of the estimation uncertainty. Furthermore, the auditor is to ascertain whether the data and assumptions used in making the accounting estimate are consistent with each other and are in agreement with those used in other accounting estimates or areas of the entity's business activities. These are all contained in paragraphs A2-A3 and A142- A146 which among others also provide guidance to assist the auditor in evaluating management's selection of a point estimate to be included in the financial statements.

Question 7:

ANAN believes that with total and consistent application of the provisions contained in the proposed standard, the auditor should be able to have more materials needed for appropriate and consistent evaluation from external information sources.

General Comments

Question 8:

8. (b) It is the considered opinion of ANAN that the 18 months ending approximately after the approval of the ISA should not be recommended to be retrospectively applied but should apply prospectively.

ABOUT ANAN

Association of National Accountants of Nigeria (ANAN) is a statutorily recognized Professional Accountancy body in Nigeria. The body is charged among others, with the duty of advancing the science of accountancy.

The Association was formed on 1st January, 1979 and operates under the ANAN Act 76 of 1993(Cap A26 LFN 2004), working in the public interest. The Association regulates its practising and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.

Active ANAN members are 20,049, they are either FCNA or CNA and are found in Business, Practice, Academic and Public Sector in all the States of Nigeria and Overseas. The members provide professional services to various users of accountancy services.

ANAN is a member of the International Federation of Accountants (IFAC), International Association for Accounting Education & Research (IAAER), The Pan African Federation of Accountants (PAFA), and Associate of Accountancy Bodies in West Africa (ABWA).

Yours faithfully,

ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA



DR. SUNDAY A. EKUNE, FCNA

Registrar/Chief Executive