



May 11, 2005

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on the proposed revised International Standard on Auditing (ISA) 540 (revised), *Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Measurements and Disclosures)*, (the “proposed standard”) as developed by the International Auditing and Assurance Standards Board (IAASB). We are supportive of the development of this guidance, however we do have some recommendations for clarifying the proposed standard, as described below.

- **Paragraph 9(c)**

This paragraph states that the auditor should *obtain an understanding* of the processes and relevant internal controls used to make accounting estimates, but does not state if this was intended to mean that the auditor should *evaluate or test the design and implementation of such controls*. We recommend that the proposed standard clarify that testing of design and implementation is not required for all accounting estimates, but only for significant accounting estimates.

- **Paragraph 17**

This paragraph uses the word “should,” but not in a manner of describing requirements for the auditor. We suggest that the IAASB review this paragraph, to ensure that this wording is appropriate.

- **Paragraph 28**

This paragraph requires that, for accounting estimates that the auditor has identified and assessed as having risks of material misstatement, the auditor should determine whether events occurring up to the date of the auditor's report confirm or contradict the estimate. We are concerned that the vast majority of estimates will have a risk of material misstatement. We therefore recommend that this requirement be linked to accounting estimates which are deemed to be *significant risks*, not simply accounting estimates with *a risk of material misstatement*. To address this comment, paragraphs 28 and 29 would need to be moved to the section on "Responses to Significant Risks" in paragraphs 45 and 46.

- **Paragraph 51**

Because the use of the word "may" in paragraph 51 implies that management may not have to consider alternative assumptions or outcomes, we recommend the following edits, to clarify that it is management's responsibility to evaluate alternative assumptions or outcomes (additions are shown in "bold underline" and deletions are shown in "double-strike through"):

51. Management ~~may~~ evaluates alternative assumptions or outcomes of the accounting estimates. One method used by management to do so is by applying a sensitivity analysis. Such a sensitivity analysis might involve determining the degree of variation in the monetary amount of an accounting estimate from varying assumptions...

- **Paragraph 84**

Other than "indicators of possible management bias," we believe that the documentation requirements are not specific to accounting estimates, and do not provide further guidance than which was included in the Risk Assessment standards. We recommend that the IAASB consider deleting any generic documentation requirements from the proposed standard.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact P. Nicholas Fraser at + 1 (212) 492-4118.

Very truly yours,

/s/ Deloitte Touche Tohmatsu