



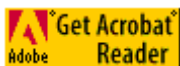
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IAASB Issues New Auditing Standard on Accounting Estimates and Fair Values; Establishes Task Force to Develop Guidance

(New York/February 13, 2008) - New requirements designed to enhance the rigor applied to auditing accounting estimates, including fair value accounting estimates, were released today by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC). International Standard on Auditing (ISA) 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, requires the auditor to focus attention on areas of higher risk, accounting judgment, and possible bias, thereby assisting the auditor to form appropriate conclusions about the reasonableness of estimates in the context of an entity's financial reporting framework.

ISA 540 (Revised and Redrafted) adopts a risk-based approach to the audit of accounting estimates including fair value accounting estimates. It addresses matters such as the auditor's evaluation of the effect of estimation uncertainty on risk assessments, management's methods for making estimates, the reasonableness of assumptions used by management, and the adequacy of disclosures. The ISA provides expanded guidance on auditing fair value accounting estimates, including audit considerations relating to the proper application of the requirements of the financial reporting framework relevant to such estimates and the use of models in valuations.

"We are clearly in an environment where the measurement and disclosure of fair values are of great importance, with recent market experience highlighting the difficulties that arise in valuing financial instruments. It is, therefore, timely that the IAASB has issued its revised standard to provide enhanced

guidance on auditing accounting estimates, particularly fair value ones determined on the basis of a complex valuation model or significant unobservable inputs," states John Kellas, Chairman of the IAASB, adding, "We are confident that the standard will enhance current practice and promote consistency worldwide."

ISA 540 (Revised and Redrafted) combines ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)*, and ISA 545, *Auditing Fair Value Measurements and Disclosures*. The IAASB concluded that the similarities between estimates and fair value estimates could be emphasized, and redundancy eliminated, by combining these two standards. The new standard forms part of the IAASB's ambitious 18-month program to redraft existing standards and to develop new and revised standards following the clarity drafting conventions.¹

Mr. Kellas explains: "Although ISA 540 (Revised and Redrafted) is effective for audits of financial periods commencing on or after December 15, 2009, the date when all the standards redrafted under the IAASB's Clarity project become effective, it deals with a subject of considerable current concern. In this climate, auditors will be well aware of the need to understand the accounting principles and rules relating to accounting on the basis of fair value, and to give appropriate consideration to their application. Auditors may therefore wish to consider the material in the new standard as they complete their 2007 audits, and plan and perform those for 2008 and 2009 engagements. Other existing standards may also be particularly relevant, for example, those on the use of experts by the auditor and on the auditor's consideration of the going concern basis of accounting."

The IAASB also recommends that auditors be alert for relevant guidance that has been, or may be, issued by other organizations: for example, the paper, *Determining Fair Value of Financial Instruments under International Financial Reporting Standards (IFRS) in Current Market Conditions*, issued in December 2007 by the world's six largest accounting firms (under the auspices of the Global Public Policy Committee); the US Public Company Accounting Oversight Board's Staff Audit Practice Alert No. 2, *Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists*, also released in December; and the UK Auditing Practices Board's (APB) Bulletin 2008/01, *Audit Issues when Financial Market Conditions are Difficult and Credit Facilities may be Restricted*.

ISA 540 (Revised and Redrafted) can be downloaded free-of-charge from the IFAC online bookstore at <http://www.ifac.org/store>.

Task Force on Fair Value Auditing Guidance

To address some of the valuation difficulties highlighted by the problems in the world's major financial markets, the IAASB plans to explore whether and how to supplement ISA 540 (Revised and Redrafted) as soon as practicable with implementation guidance on auditing fair value estimates. Any such guidance would have the aim of raising awareness of issues and best practice on a timely basis and further promoting audit consistency. Accordingly, the IAASB agreed in December 2007 to establish a Task Force to consider how best to approach the development of possible further fair value auditing guidance.

The demand for implementation guidance from a number of constituencies, including regulators, was recognized in the IAASB Consultation Paper, *Proposed Strategy for 2009-2011*. That paper raised the possibility that the IAASB might develop guidance for auditors on the audit of complex valuation models. However, recent developments in the financial markets, in particular the current lack of market liquidity, have persuaded the IAASB to create the Task Force now to take this idea further even though the responses to the Consultation Paper have yet to be fully analyzed.

The Task Force, chaired by a member of the IAASB and to comprise interested parties with relevant perspectives and expertise, will consider aspects of the audit of financial statement items measured at fair value and make recommendations to the IAASB for matters that require priority attention.

About the IAASB and IFAC

The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The Public Interest Oversight Board oversees the activities of the IAASB and, as one element of that oversight, establishes its due process and working procedures.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international

economies. IFAC is comprised of 157 members and associates in 123 countries and jurisdictions, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international auditing and assurance standards through the IAASB, IFAC, through its independent standard-setting boards, sets international ethics, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.

¹Key elements of the clarity drafting conventions include: establishing an objective for the auditor with respect to the subject matter of each standard; clearly distinguishing requirements from guidance on their application; avoiding ambiguity through eliminating the present tense to describe actions by the auditor and using more imperative language where a requirement was intended; and other structural and drafting improvements to enhance the overall readability and understandability of the standards.

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