

The Chairman
Auditing & Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

14 October 2008

Dear Ms. Kelsall,

**ED 12/08 Proposed Auditing Standard ASA 540 Auditing Accounting Estimates,
Including Fair Value Accounting Estimates, and Related Disclosures**

Attached is the Australasian Council of Auditors-General (ACAG) response to the exposure draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Frank McGuinness
Chairman
ACAG Financial Reporting and Auditing Committee

ED 12/08 Proposed Auditing Standard ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

The views expressed below are those of the Australian members of the Australasian Council of Auditors-General (ACAG).

ACAG has reviewed the Exposure Draft and provides responses to the questions asked.

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?

ACAG believes that applicable laws have been adequately addressed within the Authority Statement and Aus 0.1.

2. Are there any references to relevant laws or regulations that have been omitted?

ACAG believes that Aus 0.1(b) will adequately capture any other legislative instruments that require the conduct of an audit.

3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

ACAG does not believe current laws or regulations will prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

ASA 540 (Revised and Redrafted) mandates some issues previously discussed in the explanatory guidance. While this may increase the cost of performing the audit for some firms, if the additional requirements help auditors identify material misstatements, the benefit to users of audit services are likely to outweigh the costs.

5. Are there any other significant public interest matters that constituents wish to raise?

Fraud Risk Consideration

ASA 240 has many references to fraud through the use of accounting estimates, while ASA 540 makes limited reference to the issue.

Paragraph A10 notes management bias may be fraudulent in nature, but does not reference to procedures regarding the identification of risk factors in ASA 240, or to recommended responses to such risks in ASA 240.

ACAG recommends the inclusion of a requirement for the auditor to make an assessment of the risk of material misstatement due to fraud through the manipulation of accounting estimates. The inclusion could be added below paragraph 8, with further guidance being added below A10.

ACAG recommends the inclusion of a requirement for the auditor to respond to the risk of material misstatement due to fraud through the use of accounting estimates at paragraph 12 referencing to audit responses to the risk of material misstatement due to fraud in ASA 240.

Economic Volatility & Fair Value Estimates

Consideration is given to the reasonableness of management's assumptions in light of the economic environment and circumstances of the entity (refer para 13 and A79). However, the guidance thereafter is focused on the entity. We believe more attention could be given to risks arising from volatile markets and unstable economic and industry forces.

ACAG recommends that a requirement be added under paragraph 15 for the auditor to consider the alignment between management's assumptions, the maturity of the audit client's industry, developments in the economic cycle and the volatility of markets. Guidance could be added below A103 to support the above requirement where the entity seeks to establish estimates of the values of assets and liabilities.

Further guidance could also be added below A87 to recommend the auditor actively seek a range of 'alternative sources of relevant data' in periods of economic volatility or uncertainty.