

CANADIAN AUDITING STANDARDS

CAS 540

auditing accounting estimates and related disclosures

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

- A57. A retrospective review of management judgments and assumptions related to significant accounting estimates is required by CAS 240. 40 As a practical matter, the auditor's review of previous accounting estimates as a risk assessment procedure in accordance with this CAS may be carried out in conjunction with the review required by CAS 240.
- A136. In addition, in applying CAS 240, the auditor is required to evaluate whether management's judgments and decisions in making the accounting estimates included in the financial statements indicate a possible bias that may represent a material misstatement due to fraud. 61 Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates, which may include intentionally understating or overstating accounting estimates. Indicators of possible management bias that may also be a fraud risk factor, may cause the auditor to reassess whether the auditor's risk assessments, in particular the assessment of fraud risk, and related responses remain appropriate.
- A142. CAS 450 also provides guidance regarding qualitative disclosures 64 and when misstatements in disclosures could be indicative of fraud. 65

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, *Going Concern*.

- A75. In some cases, the estimation uncertainty relating to an accounting estimate may cast significant doubt about the entity's ability to continue as a going concern. CAS 570 47 establishes requirements and provides guidance in such circumstances.
- A135. Indicators of possible management bias may affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit, including the need to further question the appropriateness of management's judgments in making accounting estimates. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in CAS 700. 59

Footnotes

40. 40 CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 33(b)(ii)
- 61 CAS 240, paragraph 33(b)
64. CAS 450, paragraph A17
65. CAS 450, paragraph A22
47. CAS 570, *Going Concern*
59. CAS 700, paragraph 11

