

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 540, Auditing Accounting Estimates and Related Disclosures

March 2019

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard (CAS) [540](#), *Auditing Accounting Estimates and Related Disclosures*.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* and related conforming amendments to other international standards is available on the IAASB website. It provides information on how the IAASB dealt with comments received in response to its Exposure Draft, "Proposed International Standard on Auditing 540 (Revised) Auditing Accounting Estimates and Related Disclosures" issued in 2017 (ED-ISA 540).
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, "Proposed Canadian Auditing Standard Auditing Accounting Estimates and Disclosures" (ED-CAS 540). This information is set out below.

Background

In April 2017, the IAASB issued its ED-ISA 540. The IAASB approved its final ISA 540 (Revised), and related conforming amendments to other international standards, at its meeting in June 2018 subject to the Public Interest Oversight Board's confirmation that the IAASB followed due process. The IAASB received this confirmation in September 2018.

In May 2017, the AASB issued its ED-CAS 540. There were six respondents to ED-CAS 540 (identified below). In addition to the written responses, consultation sessions with various stakeholders were held to seek input on ED-CAS 540. Also, discussion sessions were held with stakeholders who field tested ED-CAS 540 on a retrospective basis against a completed file. This field testing was a first for the AASB and its stakeholders.

The AASB approved [CAS 540](#) in October 2018. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CPA Handbook – Assurance.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. [CAS 540](#) contains no amendments to the ISA wording. This is consistent with the position taken by the AASB in ED-CAS 540.

Request for Additional Guidance

2. A respondent suggested that the AASB provide Canadian guidance to address scalability and efficiency concerns in audits of pension plans and mining companies. The same respondent also suggested additional Canadian guidance was needed in applying revised [CAS 540](#) in the context of Canadian Accounting Standards for Private Enterprises, the Canadian Accounting Standards for Not-for-Profit Organizations, and the Canadian Accounting Standards for Pension Plans. The AASB concluded that there is no circumstance unique to Canada that would warrant an amendment of the wording from ISA 540 in finalizing [CAS 540](#) in this regard. The AASB believes that some of the practical difficulties could be addressed through non-authoritative guidance without amending the CAS.

Other

Significant Concerns over Operationalizing the Requirements

3. Several respondents to ED-CAS 540 had significant concerns with operationalizing the requirements dealing with identifying and assessing the risks of material misstatement and responding to the assessed risks of material misstatement in a manner that would achieve consistency of practice and appropriate use of professional judgment. The following summarizes the significant concerns raised by respondents:
 - There is an implied requirement to identify and assess inherent risk as low or not low, but there is little clarity as to how one makes such determination.
 - It is not clear as to whether the auditor can select one or a combination of approaches in testing accounting estimates when inherent risk is not low.
 - It is not practicable to ask the auditor to categorize the work effort on accounting estimates into the three risk factors of complexity, judgment and estimation uncertainty because the risk factors are not mutually exclusive

and are not precisely defined. Also, categorizing accounting estimates into three discrete risk factors is inconsistent with management's process for making estimates.

- The relationship between identifying and assessing the risks of material misstatement and responding to the assessed risks of material misstatement is not clear. As a result, there is confusion as to whether the response to the assessed risks of material misstatement is affected by the extent of complexity, judgment and estimation uncertainty.
4. Respondents to ED-ISA 540 shared similar concerns and these matters were carefully considered by the IAASB in finalizing ISA 540, as discussed in the IAASB's Basis for Conclusions for ISA 540. The AASB believes that the final ISA 540 includes improvements over proposed ISA 540, on which ED-CAS 540 was based, that address the concerns raised by Canadian respondents.

Joint Policy Statement Concerning Communications with Actuaries

5. Two respondents suggested an amendment to the "Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors" (Statement), appended to [CAS 500, Audit Evidence](#). The respondents suggested that the Statement include guidance to address communication with actuaries in the circumstance of paragraph 15 of CAS 540, which contemplates the auditor's use of specialized skills or knowledge to assist in the audit.
6. The AASB decided not to make the suggested amendment. Communication with an auditor's actuary or an external review actuary is outside the scope of the Statement. The AASB believes that paragraph A62 of CAS 540 appropriately indicates that if the specialized skills or knowledge is in a field other than accounting or auditing, the auditor may need to use an auditor's expert. 1

List of Respondents to the Exposure Draft

Deloitte LLP

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (joint response)

Office of the Auditor General of Alberta

Office of the Auditor General of Canada

Ordre des comptables professionnels agréés du Québec

Provincial Auditor of Saskatchewan

Summary of Participants in Webinar

Registered	Attended "Live"	Attended "On Demand"
1,159	303	537

Summary of Participants in Other Consultations

		Large firms	SMPs	Public sector	Regulators	Preparers	Provincial institutes / Ordre members
	Format	# of participants					
1	Virtual – Open registration	0	3	0	0	0	0
2	Conference call – CPA Quebec working group on assurance and reporting	5	7	2	1	2	3
3	In-person – SMP and provincial trainers	0	5	0	0	0	2
4	Virtual – Regulators	0	0	0	5	0	0
5	In-person – Large firms	6	0	0	0	0	0
6	In-person & virtual – Oil & gas, and mining	5	0	0	0	0	0

7	In-person – SMP Committee – CPA Ontario	0	10	0	0	0	1
8	Virtual – Legislative auditors	0	0	1	0	0	0
	TOTAL	16	25	3	6	2	8

Footnotes

1. [CAS 620](#), *Using the Work of an Auditor's Expert*

Terms and Conditions and Privacy Policy

Help desk: Mon-Fri, 9am-5pm ET 1-866-256-6842 [Contact Us](#) [Quick Reference Guide](#)

© 2001-2025, Knotia Canada Limited Partnership All rights reserved.