

September 2009

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

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 540, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

Background

In December 2006, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Auditing Standard (ISA) 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” (ED-ISA 540). The IAASB approved final ISA 540 in December 2007 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in February 2008.

In February 2007, the AASB issued its Exposure Draft to adopt proposed ISA 540 as CAS 540 (ED-CAS 540) to replace Section 5305, AUDIT OF ACCOUNTING ESTIMATES, and Section 5306, AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES. There were 11 respondents to ED-CAS 540 (identified below).

The AASB approved CAS 540 in March 2008. 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 CICA Handbook – Assurance.

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 IAASB staff for ISA 540 is available on the [IAASB web site](#), and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 540.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 540 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 540 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in ED-CAS 540.

Communication with Those Charged with Governance

2. A respondent suggested that CAS 540 should contain a requirement or application material for the auditor to communicate with the audit committee or equivalent regarding matters that have a significant effect on the qualitative aspects of accounting principles used in the entity's financial reporting. A requirement and application or other explanatory material regarding communicating significant qualitative aspects of accounting practices with those charged with governance are contained in CAS 260, "Communication with Those Charged with Governance." A fundamental principle in developing the ISAs and CASs is that there should be no duplication of requirements. Auditors are expected to read and obtain an understanding of the entire body of CASs.

Further Possible Misstatements

3. A respondent suggested CAS 540 should contain a requirement or application material for the auditor to consider further possible misstatements that were not identified by the auditor during the course of the examination, but which could exist as a result of sampling and non-sampling risk, when evaluating whether the financial statements are free of material misstatement. A requirement relating to sampling risk and application or other explanatory materials regarding non-sampling risk is contained in CAS 530, "Audit Sampling."

Responses to Assessed Risks and Further Substantive Procedures

4. A respondent suggested that the requirements set out in paragraphs 13-14 dealing with responses to assessed risks of material misstatement and paragraphs 15-18 dealing with further substantive procedures to respond to significant risks were unclear, and that these paragraphs should be redrafted. Respondents to the 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 IAASB decided that these matters should not be included in the ISA. The AASB considered these matters, including the reasons for the IAASB's decision. Following its criteria for amendment, the AASB concluded that no amendment should be made to the wording of ISA 540 in finalizing CAS 540.

Other Matters

None.

List of Respondents to ED CAS 540

Auditor General Alberta

BDO Dunwoody LLP

Canadian Public Accountability Board

Deloitte & Touche LLP

KPMG LLP

Institute of Chartered Accountants of British Columbia

Office of the Auditor General of Canada

Ordre des comptables agréés du Québec

Provincial Auditor Saskatchewan

Serge Huot

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