

Audit & Assurance Alert

CANADIAN AUDITING STANDARDS (CAS)

MAY 2017

Exposure Draft on Auditing Accounting Estimates and Related Disclosures – Comments Due July 7, 2017

The purpose of this *Audit & Assurance Alert* is to raise awareness about the recent Exposure Draft issued by the Auditing and Assurance Standards Board (AASB) in May 2017, highlighting significant changes affecting the audit of all accounting estimates.

The International Auditing and Assurance Standards Board (IAASB) is revising International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Since the AASB adopts ISAs as Canadian Auditing Standards (CASs), the AASB's Exposure Draft mirrors the changes in ISA 540, with additional questions for Canadian stakeholders posed by the AASB.

Why should I read the Exposure Draft?

This Exposure Draft impacts all practitioners who audit accounting estimates (e.g., from an allowance for doubtful accounts (AFDA) to expected credit losses). Through the AASB, Canadian practitioners have an opportunity to influence the development of the ISAs so the standard is clear, understandable, and can be practically applied to audits in Canada (e.g., are the proposals scalable for audits of small entities?). Practitioners are strongly encouraged to read the Exposure Draft to familiarize themselves with the proposed changes and to consider and provide feedback to the AASB on how these changes will be applied in practice.

What is the deadline for providing comments to the AASB?

Comments must be received by the AASB by **July 7, 2017**. The AASB will take these comments into account when drafting its own response to the IAASB's Exposure Draft, including circumstances in the Canadian environment and issues that are important to Canada.

What is included in the Exposure Draft and where can it be located?

The Exposure Draft consists of:

- proposed changes
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum
- a description of the AASB's process for adopting ISAs
- a discussion of proposed significant Canadian amendments
- a proposed effective date
- key changes to CAS 540 proposed in the Exposure Draft.

The Exposure Draft, including a list of questions for practitioners, can be found at:

www.frascanada.ca/CAS540ED

What are the proposed changes to CAS 540?

The Exposure Draft proposes a number of key changes including:

- enhanced approach to risk assessment
- more focused effort to identify and assess the risk of material misstatement
- enhanced retrospective review
- greater emphasis on the use of specialized skills or knowledge
- enhanced linking of required responses to assessed risk
- enhanced focus on the use of an auditor's point estimate or range
- greater emphasis on disclosures
- expanded overall evaluation based on audit procedures performed
- additional written representations of management
- greater emphasis on communications with those charged with governance or management
- additional information on measurement bases relevant in making accounting estimates.

Other Resources

1. AASB CAS 540 Exposure Draft, [Auditing Accounting Estimates and Related Disclosures](#), May 2017
2. FRAS Canada [Auditing Accounting Estimates Landing Page](#)
3. IAASB Exposure Draft, Proposed International Standard on Auditing 540 (Revised), [Auditing Accounting Estimates and Related Disclosures](#), April 2017

Comments

Comments on this *Audit & Assurance Alert*, or suggestions for future Alerts should be sent to:

Kaylynn Pippo, CPA, CA
Principal, Research, Guidance and Support
Audit & Assurance
Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
Email: kpippo@cpacanada.ca

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