



ISA 540 (Revised): the audit of accounting estimates and related disclosures

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Outline

- Project objectives
- Key enhancements
- Practical implementation challenges
- Additional support

Objectives

Robust
requirements

Address
complex
estimates

Scalable

Enhanced
scepticism

Improved
communication
and
transparency

For audits of financial statements for periods beginning on or after 15 December 2019

Key enhancements

- Risk assessment procedures
- Separate inherent and control risk assessments at the assertion level
- Responses to assessed risks
- Stand-back evaluation and reasonableness of disclosures
- Communications with TCWG
- Documentation, scepticism and scalability

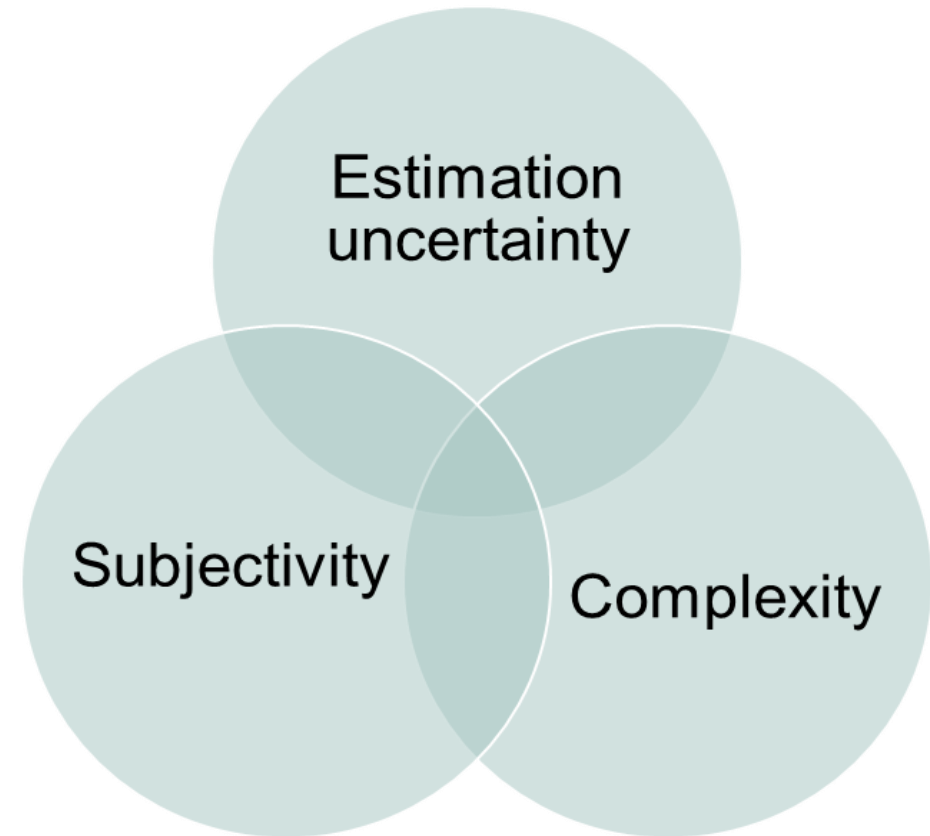
The entity and its
environment

The entity's
internal control

Enhanced risk
assessment
procedures

Inherent and control risk assessments

- Inherent risk factors
 - Methods, data and assumptions
 - Other factors
- Spectrum of inherent risk
- Scalability
- Control risk assessment



Responses to assessed risks

- Work effort responsive to assessed risks of material misstatement
- The higher the risk = the more persuasive the audit evidence
- Not biased to obtaining corroborative or excluding contradictory evidence
- Further audit procedures (one or more):
 - Obtaining evidence from events up to the date of audit report
 - Testing how management made the estimate
 - Auditors' point estimate or range

Responses to assessed risks

- Document linkage of procedures with assessed risk
- Indicators of management bias
- Controls

Stand-back evaluation and disclosures

Based on procedures performed:

Are the risk assessments at the assertion level still appropriate?

Are management's decisions relating to recognition, measurement, presentation and disclosure in accordance with the financial reporting framework?

Has sufficient appropriate audit evidence been obtained (including all relevant evidence whether corroborative or contradictory)?

Are the estimates and related disclosures reasonable or misstated?

Communications with TCWG

- Auditor's views about significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control related to accounting estimates and related disclosures
- Appendix 2 examples

Potential implementation challenges

Existing
challenges and
new requirements

Inherent risk
factors and
spectrum of risk

Scalability and
documentation

What to do about
controls?

Management bias

Others?

Implementation support

- IAASB implementation working group
- ICAEW working group
 - Updating [Estimates web portal](#)
 - Revising ISA digital UK and International guides
 - Webinar on 10 July 2019
 - Other implementation tools

Thank you for watching

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