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Description of content of ISSAI 1540

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1540 is comprised of International Standard on Auditing (ISA) 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, and a corresponding Practice Note. The ISA and the Practice Note are read together.

Authority

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

Description of the ISA

ISA 540 deals with the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. Specifically, it expands on how ISA 315¹ and ISA 330² and other relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

Objective of the auditor in terms of the ISA

The objective of the auditor is to obtain sufficient appropriate audit evidence about whether:

- a. accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable; and

¹ ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

² ISA 330, The Auditor's Responses to Assessed Risks.

- b. related disclosures in the financial statements are adequate, in the context of the applicable financial reporting framework.

Among other matters, the requirements in this ISA deal with:

- a. Risk assessment procedures and related activities.
- b. Identifying and assessing the risks of material misstatement, including evaluating the degree of estimation uncertainty associated with an accounting estimate.
- c. Further substantive procedures to respond to significant risks.
- d. Evaluating the reasonableness of the accounting estimates, and determining misstatements.
- e. Evaluating the entity's disclosures relating to accounting estimates.
- f. Indicators of possible management bias.
- g. Written representations and documentation. This includes a requirement to obtain written representation from those charged with governance.

Description of the Practice Note

The Practice Notes provides supplementary guidance for auditors applying ISA 540 when conducting financial audits of public sector entities.

Content of the Practice Note

The Practice Note provides additional guidance for public sector auditors related to:

- a. The nature of accounting estimates in the public sector.
- b. Additional considerations related to the objective of the ISA.
- c. Risk assessment procedures and related activities.
- d. Identifying and assessing the risks of material misstatement.
- e. Responses to the assessed risks of material misstatement.
- f. Further substantive procedures to respond to significant risks.
- g. Evaluating the reasonableness of the accounting estimates, and determining misstatements.
- h. Indicators of possible management bias.