

In Brief

A plain and simple overview of the AASB's launch of field testing on a proposed auditing standard

This is an overview of the AASB's launch of field testing during consultations on the proposed updates to CAS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

Project objectives:

The Exposure Draft of CAS 540 proposes significant changes to the audit of accounting estimates and related disclosures. We chose field testing to help us identify any significant practical challenges with proposed CAS 540.

The project stage:

The AASB submitted its response to the IAASB Exposure Draft, *Auditing Accounting Estimates and Related Disclosures*, on August 1, 2017. The AASB is currently providing input on the issues identified, to influence the development of the ISA so that it can be adopted as a CAS with little or no amendments.

Next steps:

The final standard is expected to be issued in the CPA Canada Handbook – Assurance in the first half of 2018.

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Background

CAS 540 was field tested in Spring 2017. Field testing provides a new and innovative way for the AASB's stakeholders to provide input into the practical implications of proposed standards.

About ISA 540 updates

The International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, is being updated. The changes may be significant, affecting all audits and estimates, from simple to complex.

In April 2017, the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft on the updates to ISA 540. As the Auditing and Assurance Standards Board (AASB) adopts ISAs as Canadian Auditing Standards (CASs), the AASB issued its own exposure draft on the updates to CAS 540. The comment period closed on July 7, 2017.

A new and innovative way to obtain input

While the document was out for comment, the AASB coordinated field testing of the proposed new standard – a first for the Board and its stakeholders.

This field testing was done in addition to traditional consultation activities to collect input, which included written comment letters from stakeholders and in-person and virtual roundtable sessions.

One of the Board's strategic priorities is to better engage stakeholders in the standard-setting process, with field testing offering a new and innovative way for the stakeholders to provide input into proposed standards.

Field testing has specific benefits for accounting firms. It allows them to develop a better understanding of how a new standard might affect their current auditing approaches. The process to share experiences with other firms lets participants compare their audit approach with others, and determine whether the way they would address the changes is consistent with colleagues in other firms. Some firms also see it as an alternative to providing a written response letter or attending a roundtable session.

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Why CAS 540 was field tested

“Field testing helped the AASB provide practical examples from a broad range of practitioners in its response to the IAASB’s Exposure Draft.”

– Darrell Jensen,
AASB Chair

“The consultation approach is reflective of the complexities of this standard and the challenges of obtaining specific examples where the proposals may introduce issues in practice.”

– Eric Turner,
AASB Director

Complex standard with far-reaching impact

The AASB is committed to helping the IAASB develop high-quality global auditing standards so ISAs are adopted in Canada as CASs with little to no amendments.

CAS 540 is complex and it is relevant to all audits and estimates. As a result, the AASB saw field testing the proposals as the best way to identify significant issues specific to the Canadian market.

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What was field tested

Accounting estimates from different industries and of different nature and complexity from prior period audits were chosen to field test against the updates to CAS 540.

The testing examined whether the proposals could be:

- clearly understood and consistently interpreted;
- applied to a wide range of accounting estimates with different characteristics; and
- usable by various types of practitioners and applicable to organizations of different sizes and in different industries.

Throughout the field testing, participants met with AASB staff and other contributors to discuss the process, explore findings they encountered, identify issues and provide suggestions for improvement in the standard.

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Field testing supported other feedback we obtained

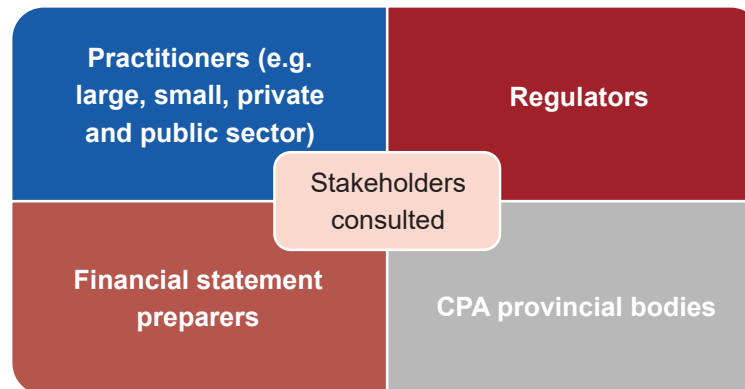
A wide range of stakeholders were consulted via a multitude of ways, including field testing, virtual roundtables and written feedback

Field testing participants included:

- large public accounting firms;
- small and medium-sized public accounting practices; and
- auditors from the oil, gas, and mining industries – sectors having a large number of Canadian companies.

The AASB also held a number of virtual roundtable sessions. Participants in these sessions included regulators, financial statements preparers and various practitioners from across Canada. The AASB also received feedback via [written comments](#).

Figure 1: Types of stakeholders consulted



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A powerful combination

Field testing, together with the other input obtained, also brought a practical perspective to the AASB's feedback on the IAASB's proposed updates to ISA 540, directly influencing [its response letter](#) on the international Exposure Draft.

Better and earlier identification of issues and challenges

Field testing the updates to CAS 540 helped to better identify issues encountered in the Canadian market, such as the following:

- Interpretation and application challenges of the proposed standard.
- Specific challenges faced by auditors of smaller entities, such as requirements for additional clarification in the proposed standard specific to smaller entities.
- Significant changes to current practice and training requirements, if any, earlier in the standard-setting process.

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Next Steps

The AASB is committed to providing more opportunities to stakeholders to field test proposed standards.

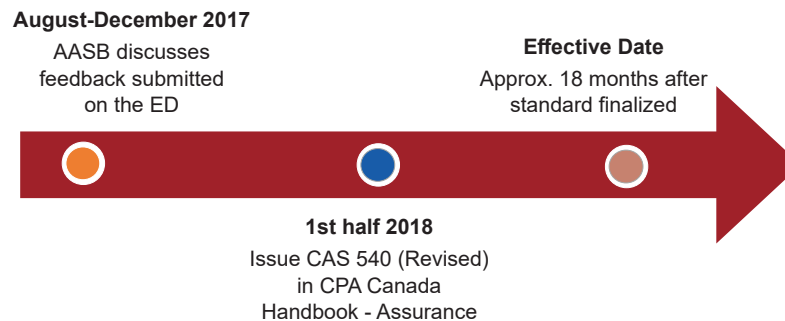
“The format was great and it allowed for great discussion and collaboration” – Field Testing Participant

Future field testing opportunities

Identifying practical challenges with proposed auditing standards will be a continuing objective of our consultation process. We surveyed the participants and the majority indicated they were satisfied with the process and would be willing to participate again.

We expect field testing to be a regular tool used when consulting on proposed standards going forward. If you would like to participate in a future field testing project, contact info@asbcanada.ca.

When will the updates to CAS 540 be approved and effective?



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Stay informed

The AASB issues its agendas ahead of its meeting, which will indicate when the Board will be discussing this topic. Get the dates of upcoming meetings and review our agendas via the [AASB calendar](#).

Stay up to date on this project via the [online project page](#).

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