## **Supplement to Proposed ISA 540 (Revised) Illustration of Work Effort Requirements**

Note: This chart summarizes key aspects of paragraphs 13, 15-23 of ED 540. It is not a substitute for reading the ED.

In applying ISA 315, identify and assess the risks of material misstatement, taking into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors including:

- The need for the use of judgment by management; and
- Estimation uncertainty (see Paragraph 13)



In applying ISA 330, when inherent risk is low, determine whether one or more of the following procedures would provide sufficient appropriate audit evidence ("SAAE"):

- Obtaining audit evidence about events occurring up to the date of the auditor's report;
- Testing how management made the accounting estimate and the data on which it is based; or
- Developing a point estimate or range

If these procedures would not provide SAAE, then design and perform other procedures. (See paragraph 15(a))



In applying ISA 330, when inherent risk is not low, design and perform further audit procedures to obtain audit evidence about the matters specified in paragraphs 17 to 20, when applicable and when the reasons for the assessment of the RoMM include:

- Complexity;
- The need for the use of judgment by management; or
- Estimation uncertainty. (See paragraph 15(b))



Matters relevant when complexity is a reason, such as whether the method, and significant data and assumptions, are appropriate in the context of the applicable financial reporting framework ("the framework"). (See Paragraph 17)

Matters relevant when judgment is a reason, such as whether the significant assumptions are consistent with each other and with those used in other accounting estimates or with assumptions used in other areas of the entity's business activities. (See Paragraph 18)

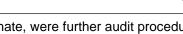
Matters relevant when estimation uncertainty is a reason, such as whether management has taken appropriate steps to understand and address estimation uncertainty, and whether management's point estimate and related disclosures are reasonable. (See Paragraphs 19, 20)



- If the auditor intends to rely on controls or if substantive procedures alone cannot provide SAAE, test operating effectiveness of controls. (See Paragraph 16)
- Obtain SAAE about whether the disclosures are reasonable in the context of the framework. (See Paragraph 21)



For each accounting estimate, were further audit procedures required to address the matters in paragraphs 17, 18, or 19?







Stand back to evaluate for the accounting estimate whether, based on the audit procedures performed and audit evidence obtained, the risk assessments remain appropriate, SAAE has been obtained, and management's decisions related to recognition, measurement, presentation and disclosure are in accordance with the framework. (See Paragraph 22)



Evaluate whether the accounting estimates and related disclosures are reasonable in the context of the framework, or are misstated. (See Paragraph 23)