

# Linkages Between SAS No. 143, Auditing Accounting Estimates and Related Disclosures (AU-C Section 540) and Other AU-C Sections

AU-C section 540 (SAS No. 143) addresses the auditor’s responsibilities relating to accounting estimates and disclosures in an audit of financial statements. It includes requirements and guidance that refer to or expand on how other relevant AU-C sections are to be applied in relation to accounting estimates. This diagram shows the interrelationship of the requirements in AU-C section 540 and the requirements in other AU-C sections to assist auditors in understanding the key linkages and in applying all relevant requirements in relation to the audit of accounting estimates and disclosures. (Note: The AU-C sections have been summarized and are not quoted verbatim.)

## Risk Assessment Procedures and Related Activities

### AU-C Section 540

Obtain an understanding of the entity and its environment, including the entity’s internal control related to the entity’s accounting estimates (Par. 12)

### AU-C Section 315

Obtain an understanding of the entity and its environment, including the entity’s internal control (Par. 12–25)

## Identifying and Assessing the Risks of Material Misstatement

### AU-C Section 540

Identify and assess the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level (Par. 15)

- Separately assess inherent risk and control risk
- Take into account the degree to which the accounting estimate is subject to, or affected by, estimation uncertainty, complexity, subjectivity, and other inherent risk factors

### AU-C Section 315

Identify and assess the risks of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures (Par. 26b)

Determine whether any of the identified and assessed risks of material misstatement are, in the auditor’s judgment, a significant risk (Par. 16)

Determine whether any of the risks identified are, in the auditor’s judgment, a significant risk, excluding the effects of identified controls related to the risk (Par. 28)

For significant risks, obtain an understanding of the controls relevant to that risk and evaluate whether such controls have been suitably designed and implemented (Par. 16)

For significant risks, obtain an understanding of the controls relevant to that risk and evaluate whether such controls have been suitably designed and implemented (Par. 30)

## Responses to the Assessed Risks of Material Misstatement

### AU-C Section 540

Design and perform further audit procedures responsive to the assessed risks of material misstatement at the relevant assertion level, considering the reasons for the assessment given to those risks (Par. 17)  
 Take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be (Par. 17)

Design and perform tests of controls if: (Par. 18)

- The auditor plans to rely on the controls; or
- Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level

Obtain more persuasive audit evidence the greater the reliance on the effectiveness of a control (Par. 18)

For significant risk: (Par. 19)

- Include tests of controls in the current period if the auditor plans to rely on controls
- Include tests of details if the approach consists only of substantive procedures

### AU-C Section 330

Design and perform further audit procedures responsive to the assessed risks of material misstatement at the relevant assertion level (Par. 6)

Consider the reasons for the assessment given, including likelihood of material misstatement characteristics of classes of transactions, account balance or disclosure, and control risk assessment (Par. 7a)

Obtain more persuasive evidence the higher the assessment of risk (Par. 7b)

Design and perform substantive procedures for all relevant assertions for each material class of transactions, account balance and disclosure (Par. 18)

Design and perform tests of controls if: (Par. 8)

- The auditor plans to rely on the controls; or
- Substantive procedures alone cannot provide sufficient appropriate audit evidence at the relevant assertion level

Obtain more persuasive evidence the greater the reliance on the effectiveness of controls (Par. 9)

If planning to rely on controls over a significant risk, test controls in the current period. (Par. 15)  
 For each significant risk, perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, include tests of details (Par. 22)

## Responses to the Assessed Risks of Material Misstatement (continued)

### AU-C Section 540

#### Three Testing Approaches

Obtain audit evidence from events occurring up to the date of the auditor's report (Par. 20)

Test how management made the accounting estimate (Par. 21–26)

Develop an auditor's point estimate or range (Par. 27–28)

### AU-C Section 330

Design and perform further audit procedures responsive to the assessed risks of material misstatement at the relevant assertion level (Par. 6)

Consider the reasons for the assessment given, including likelihood of material misstatement characteristics of classes of transactions, account balance or disclosure, and control risk assessment (Par. 7a)

Obtain more persuasive evidence the higher the risk assessment (Par. 7b)

Design and perform substantive procedures for all relevant assertions for each material class of transactions, account balance and disclosure (Par. 18)

### AU-C section 500 (SAS 142) and AU-C 501

#### AU-C 500 (SAS 142)

- Evaluate relevance and reliability of audit evidence and whether it corroborates or contradicts assertions (Par. 7)
- Evaluate whether information is sufficiently precise and detailed and obtain audit evidence about accuracy and completeness of the information (Par. 8)
- Consider whether results of audit procedures provide a basis for concluding on sufficiency and appropriateness of audit evidence obtained (Par. 9)

#### AU-C 501, as amended by SAS 142

- For use of management's specialists, evaluate the competence, capabilities, objectivity of the specialist; obtain understanding of their work, and evaluate appropriateness of work as audit evidence (Par. 26)

Comply with the relevant requirements on audit evidence in AU-C sections 500 and 501 (Par. 29)

The requirements in paragraphs 20–28 of AU-C section 540 may assist in evaluating the appropriateness of the specialist's work as audit evidence for a relevant assertion in accordance with paragraph .26c of AU-C section 501, as amended by SAS No. 142. (Par. 30)

## Overall Evaluation Based on Audit Procedures Performed

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### AU-C section 540

Evaluate whether the assessments of the risks of material misstatement at the relevant assertion level remain appropriate (Par.33a)

Evaluate whether management's decisions relating to the recognition, measurement, presentation, and disclosure are in accordance with the applicable financial reporting framework (Par. 33b)

### AU-C Section 330

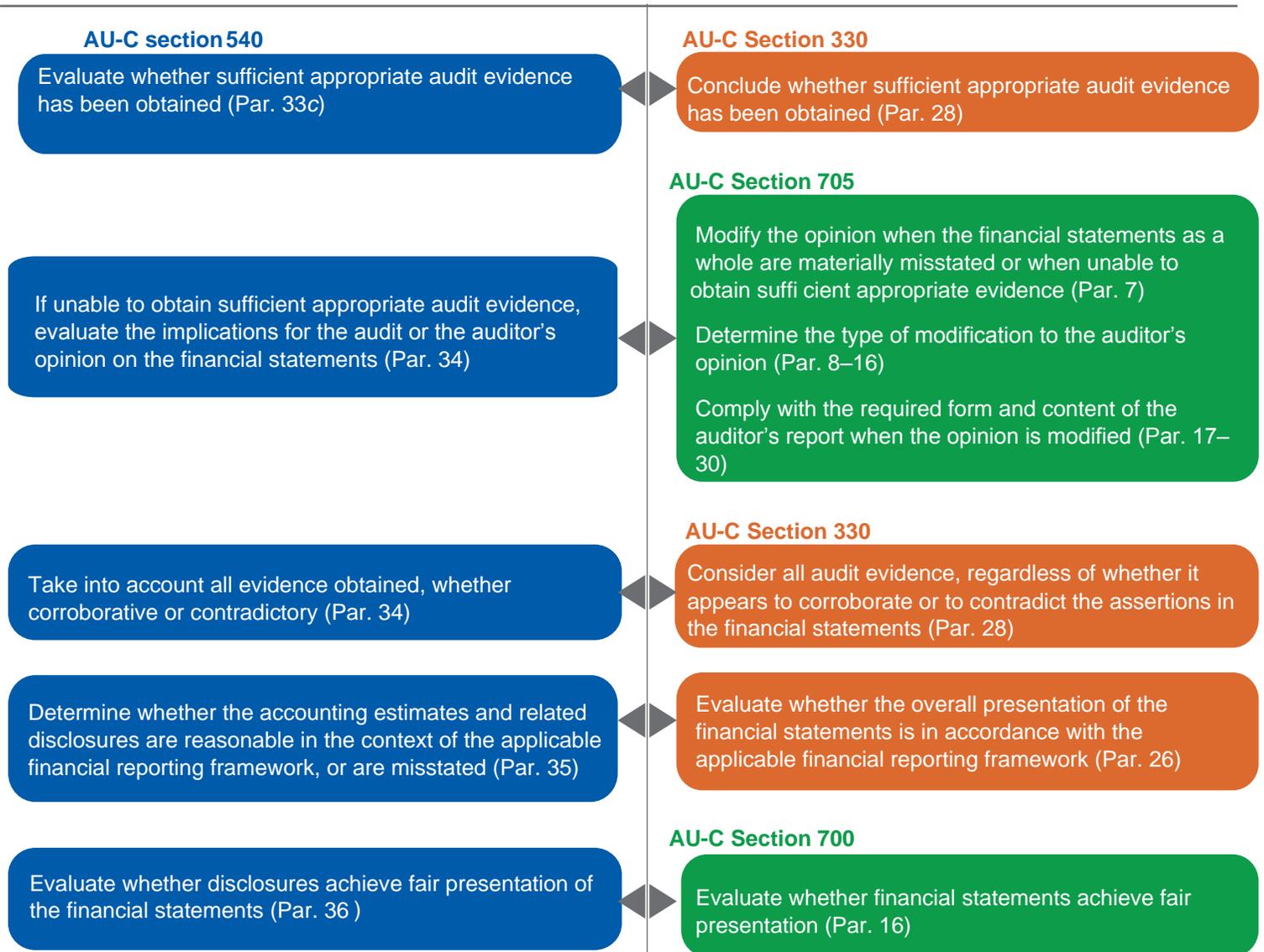
Evaluate whether the assessments of risks of material misstatement at the relevant assertion level remain appropriate (Par. 27)

Evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework (Par. 26)

Consider whether the financial statements are presented in a manner that reflects the appropriate

- classification and description of financial information
- presentation, structure, and content of the financial statements (Par. 26)

## Overall Evaluation Based on Audit Procedures Performed (continued)



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## Communication With Those Charged With Governance, Management, or Other Relevant Parties

### AU-C section 540

Communicate with those charged with governance, management, and other relevant parties as appropriate (Par. 37)

### AU-C Section 260

Communicate with those charged with governance views about qualitative aspects of the entity's significant accounting practices (Par. 12a)

### AU-C Section 265

Communicate in writing with those charged with governance significant deficiencies and material weaknesses in internal control (Par. 11)

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## Documentation

### AU-C section 540

- Document key elements of understanding of the entity and its environment, including internal control related to accounting estimates (Par. 38a)
- Document linkage of further audit procedures with assessed risks of material misstatement at the assertion level (Par. 38b)
- Document auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty (Par. 38c)
- Document indicators of possible management bias related to accounting estimates, if any, and implications for the audit (Par. 38d)
- Document significant judgments in determining whether accounting estimates and related disclosures are reasonable, or are misstated (Par. 38e)

### AU-C Section 230

- Prepare documentation that is sufficient to enable an experienced auditor to understand the nature, timing, and extent of audit procedures performed, results and significant findings or issues (Par. 8)
- Record identifying characteristics of matters tested, who performed the work, date of completion, who reviewed the work and date of the review (Par. 9)
- Document significant findings or issues discussed with those charged with governance, management and others (Par. 11)
- Document how the auditor addressed any inconsistency identified with a final conclusion on a significant finding or issue (Par. 12)