PROPOSED INTERNATIONAL STANDARD ON AUDITING 540
(REVISED) (Mark-up from ED)
AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES (OTHER THAN THOSE INVOLVING FAIR VALUE MEASUREMENTS AND DISCLOSURES)
(Effective for audits of financial statements for periods beginning on or after [date])

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8395-96
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Effective Date .................................................................................................................................................... 85100
Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on auditing accounting estimates and related disclosures, other than those involving fair value measurements and disclosures. An “accounting estimate” is an approximation of a monetary amount in the absence of a precise means of measurement. Making an accounting estimate frequently requires management to develop assumptions about the outcome of future conditions, transactions or events that are uncertain at the time of the estimation. “Estimation uncertainty” is the susceptibility of a financial statement item to a lack of precision in its measurement because the outcome of future events is not known.

3. Some financial reporting frameworks require certain assets, liabilities or specific components of equity to be measured or disclosed at fair value. ISA 545, “Auditing Fair Value Measurements and Disclosures” provides standards and guidance on auditing accounting estimates involving such fair value measurements or disclosures.

2. This ISA includes standards and guidance on the auditor’s determination and documentation of misstatements relating to individual accounting estimates, and on the auditor’s consideration and documentation of indicators of possible management bias with respect to individual accounting estimates. ISA XXX, “Aggregating and Evaluating Misstatements”, provides standards and guidance on the auditor’s evaluation of the effect on the financial statements of all misstatements identified during the audit, including those relating to accounting estimates, and on the evaluation of possible management bias identified during the audit.

3.4 The auditor should obtain sufficient appropriate audit evidence to evaluate the reasonableness of accounting estimates and related disclosures in the financial statements, in the context of the entity’s applicable financial reporting framework.

Definitions

4. The following terms are introduced in this ISA:

(a) “Accounting estimate” – An approximation of a monetary amount in the absence of a precise means of measurement. For purposes of this ISA:

(i) the amount selected by management for recognition in the financial statements as an accounting estimate is referred to as “management’s point estimate.”

(ii) the amount derived from audit evidence by the auditor, or by a third-party expert, as an accounting estimate for comparison to management’s point estimate is referred to as “the auditor’s point estimate.”

(b) “Management bias” – A lack of neutrality by management in the preparation and presentation of information.

(c) “Estimation uncertainty” – The susceptibility of a financial statement item to a lack of precision in its measurement because the outcome of future events is not known.
(d) “Significant assumption” – An assumption used in making an accounting estimate that involves judgment about the outcome of future conditions, transactions or events, where variation in the assumption would materially affect the measurement of the accounting estimate.

Nature of Accounting Estimates

5. Because of the uncertainties inherent in business activities, some financial statement items cannot be measured with precision but can only be estimated. Accordingly, making an accounting estimate frequently requires management to develop assumptions about the outcome of future conditions, transactions or events that are uncertain at the time of the estimation. Estimation involves judgments based on reliable information that is available at the time of preparation of the financial statements. Financial reporting frameworks do not always specify a precise way in which particular accounting estimates should be measured; indeed many acknowledge that the use of reasonable estimates is an essential part of the preparation of financial statements.

6. Accounting estimates may be required, for example, of:
   - Allowance for doubtful accounts or investment impairment.
   - Inventory obsolescence.
   - Warranty obligations. Depreciation method.
   - Depreciation method or asset useful life.
   - Environmental remediation costs.
   - Employee entitlements and related provisions (e.g. pension-related liabilities).
   - Outcome of long term contracts.
   - Insurance claim reserves.
   - Costs arising from litigation settlements and judgments.

7. In some cases, accounting estimates involve relatively low estimation uncertainty and may give rise to lower risks of material misstatements, for example, accounting estimates that are measured on a routine basis. This may often be the case for smaller entities that engaged in business activities that are not complex. For some accounting estimates, however, the measurement involves relatively high estimation uncertainty, particularly where they are based on assumptions about future conditions, transactions or events that are uncertain at the time of estimation. In some cases, the sensitivity of an accounting estimate to changes in assumptions may be so great that a reliable estimate cannot be made.

2 For example, accounting estimates may be required of:
   - Bad debts.
   - Inventory obsolescence.
   - Warranty obligations.
   - Environmental remediation costs.

Because of the uncertainties inherent in business activities some financial statement items cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available reliable information. Financial reporting frameworks do not always
specify a precise way in which particular accounting estimates should be measured; indeed many acknowledge that the use of reasonable estimates is an essential part of the preparation of financial statements.

68. Accounting estimates may need revision if changes occur in the circumstances on which an accounting estimate was based, or as a result of new information or more experience. Many financial reporting frameworks recognize that such a revision does not relate to prior periods and is not the correction of a misstatement of a prior period. Some financial reporting frameworks prescribe specific methods of measurement and the disclosures that are required to be made in the financial statements, while other financial reporting frameworks are less specific.

79. Financial reporting frameworks often call for neutrality, that is, freedom from bias. Accounting estimates are, however, usually imprecise, and influenced by management judgment. Such judgment, however, may involve be motivated to unintentional or intentional management bias as a result of motivation accounting estimates to achieve a predetermined desired result. The susceptibility of an accounting estimate to management bias increases in relation to the degree of subjectivity of the decisions involved in making the accounting estimate. Unintentional management bias and the potential for intentional management bias are inherent in subjective decisions that are often required in making an accounting estimate.

10. Management bias, whether unintentional or intentional, is difficult to detect at an account level and may only manifest itself through indicators of possible bias be identified when considered in the aggregate of groups of estimates or all estimates, or when observed over a number of accounting periods. Although some form of management bias is inherent in subjective decisions, in making such judgments there may be no intention by management to mislead the users of financial statements. Where, however, there is intention to mislead, management bias is fraudulent in nature. ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements,” provides standards and guidance on the auditor’s responsibility to consider fraud in an audit of financial statements. When performing audit procedures, the auditor is therefore alert to indicators of possible management bias in the making of accounting estimates.

Risk Assessment Procedures

81. ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” requires the auditor to obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and design and perform further

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4 In this ISA, the word “bias” has the meaning attached to it in the “Framework for the Preparation and Presentation of Financial Statements” issued by the International Accounting Standards Board. Paragraph 36 of the Framework states, “To be reliable, the information contained in financial statements must be neutral, that is free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.”
procedures. The auditor obtains this understanding by performing risk assessment procedures, which call for involve gathering, updating and analyzing information throughout the audit.

912. As part of the risk assessment procedures performed in accordance with ISA 315, the auditor should perform risk assessment procedures to identify accounting estimates for which there is a risk of material misstatement, by:

(a) Obtaining an understanding of the requirements of the entity’s applicable financial reporting framework relevant to the accounting estimates;

(b) Obtaining an understanding of how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates in the financial statements;

(c) Obtaining an understanding of management’s the-process used to make accounting estimates, including:
   • relevant internal controls;
   • used to make accounting estimates, including the assumptions underlying the accounting estimates; and
   • whether, and if so how, management has assessed the effect of estimation uncertainty.

(d) Reviewing the outcome, or re-estimation, of accounting estimates made in the prior period financial statements.

13. The above risk assessment procedures also assist the auditor in developing an expectation of the nature and type of accounting estimates that an entity may identify. The expectation is used for purposes of assessing risk and planning the nature, timing and extent of further audit procedures.

Obtaining an Understanding of the Requirements of the Financial Reporting Framework

14. Obtaining an understanding of the requirements of the entity’s applicable financial reporting framework assists the auditor in determining whether the financial reporting framework prescribes certain conditions or methods for the recognition and measurement of accounting estimates, or specifies required disclosures. It also provides the auditor with a basis for discussion with management about how it has applied the requirements of the applicable financial reporting framework relevant to the accounting estimate.

105. Financial reporting frameworks require incorporation in the balance sheet or income statement of items that satisfy their criteria for recognition. Disclosure of accounting policies or adding notes to the financial statements does not rectify a failure to recognize such items, including accounting estimates.
The single monetary amount recognized by management as an accounting estimate is referred to in this ISA as a “point estimate.” In some cases, management may be able to make such an estimate directly. In other cases, management may be able to make a reliable estimate by developing a range of outcomes only after considering alternative assumptions or outcomes from which it is able to determine a point estimate. Financial reporting frameworks may, or may not, provide guidance for management on determining point estimates from within the range of outcomes. Some financial reporting frameworks, for example, require that the point estimate be selected from the range of outcomes to reflect management’s judgment of the most likely outcome of the uncertain future conditions, transactions or events that led it to make the accounting estimate. Different financial reporting frameworks may use different terminology to describe point estimates determined in this way as “best estimates.”

“Estimation uncertainty” is the susceptibility of a financial statement item to a lack of precision in its measurement because the outcome of future events is not known. Factors affecting estimation uncertainty include the following:

- The extent to which the accuracy of an accounting estimate depends on management’s judgment about the outcome of uncertain future conditions, transactions or events.
- The degree of sensitivity of the accounting estimate to changes in assumptions.
- The existence of recognized measurement techniques that may mitigate the estimation uncertainty.

Financial reporting frameworks may require the disclosure of information concerning the significant key assumptions to which the estimate is particularly sensitive. In such instances, disclosures may be required in the notes to the financial statements.

Obtaining an Understanding of How Management’s Identification of Accounting Estimates

In preparing the financial statements, management has the responsibility to determine, whether a transaction, event or condition gives rise to the need to make an accounting estimate and that all necessary accounting estimates have been recognized, measured and disclosed in the financial statements in accordance with the applicable financial reporting framework. The auditor obtains an understanding of the methods and practices followed by management for periodically reviewing the circumstances that give rise to the accounting estimates and reestimating the accounting estimates as necessary. Management is responsible for making accounting estimates and, where necessary, establishing financial reporting processes for measuring them, including adequate internal controls. Such processes include the following:

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2 Different financial reporting frameworks may use different terminology to describe point estimates determined in this way.
Management’s identification of transactions, events and conditions that give rise to the need for accounting estimates is likely to be based on its knowledge of the entity’s business and the industry in which it operates, its knowledge of the implementation of strategies in the current period and, where applicable, its cumulative experience of preparing the entity’s financial statements in previous periods. Nevertheless, the auditor inquires of management about its consideration to changes in circumstances such as the following:

- The entity may have engaged in new types of transactions that give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates may have changed.
- The requirements of the applicable financial reporting framework may have changed.
- Regulatory or other changes outside the control of management may require management to revise, or make new, accounting estimates.
- New conditions or events that may give rise to new, or the need to revise existing, accounting estimates.

For smaller entities, obtaining an understanding how management identifies the need for accounting estimates is often straightforward because the range of business activities to which the entity is party is often more limited than that of a larger entity and the transactions are often less complex. Further, often a single person, usually the owner-manager, is involved in determining the need to make an accounting estimate.

The auditor’s understanding of the entity and its environment, including changes in circumstances of the entity, together with other audit evidence obtained during the course of the audit assist the auditor in identifying circumstances that may give rise to the need for an accounting estimate. It also assists the auditor in developing expectations about the type and nature of accounting estimates that an entity may have.

During the audit the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify. If so, the auditor considers why the entity’s risk assessment process failed to identify them and whether the process is appropriate for the circumstances. If they should have, the auditor considers why those procedures failed to do so. —ISA 315 provides guidance when the auditor identifies a material weakness in the entity’s risk assessment processes.

**Obtaining an Understanding of Management’s Process for Making Accounting Estimates**

Management is responsible for making accounting estimates and establishing financial reporting processes for measuring them, including adequate internal controls. Such processes include the following:

- Selecting appropriate accounting policies and prescribing estimation processes.
- Developing assumptions about future conditions, transactions or events that affect accounting estimates.
• Periodically reviewing the circumstances that give rise to the accounting estimates and re-estimating the accounting estimates as necessary.

1824. To obtain an understanding of management’s process for making accounting estimates, including relevant internal controls, the auditor ordinarily considers the following matters such as:

• The types of accounts or transactions to which the accounting estimates relate (for example, whether the estimates arise from the recording of routine and recurring transactions or whether they arise from non-recurring or unusual transactions).

• How management has applied the requirements of the applicable financial reporting framework relevant to the accounting estimate and the appropriateness of the accounting policies selected.

• Whether, and if so how, management has used the existence of generally accepted measurement techniques for making particular accounting estimates.

• The experience and competence of those who make the accounting estimates, including any use of experts within or outside the entity.

• How management determines the completeness, relevance and accuracy of the data used to develop accounting estimates.

• The controls over the review and approval of accounting estimates by appropriate levels of management and, where appropriate, those charged with governance.

• Other internal controls over the accounting estimation process.

• The assumptions underlying the accounting estimates and how management determines that the estimates are based on assumptions that are internally consistent, and conform to the entity’s business plans and the external environment.

25. In obtaining an understanding of the assumptions underlying the accounting estimates, the auditor considers how management determines that the estimates are based on assumptions that are internally consistent and conform to the entity’s business plans and the external environment.

26. In obtaining an understanding of whether, and if so how, management has assessed the effect of estimation uncertainty, the auditor considers matters such as:

• Whether management has performed a sensitivity analysis to determine the effect of changes in the assumptions on an accounting estimate.

• How management determines the best accounting estimate when management’s sensitivity analysis concludes that there may be a number of outcome scenarios.

• Whether management monitors the outcome of accounting estimates made in the prior period and whether management has appropriately responded to the outcome of that monitoring procedure.

Management uses judgment to make assumptions about the outcome of future conditions, transactions or events. Management’s attitudes and motivations influence these judgments.
(which may affect the neutrality of the accounting estimate—see discussion in paragraph ). The auditor therefore obtains an understanding of the controls over the for reviewing and approving of accounting estimates by appropriate levels of management and, where appropriate, those charged with governance. The auditor also obtains an understanding of how management ensures that assumptions are internally consistent.

**Reviewing the Outcome or Re-Estimation of Prior Period Accounting Estimates**

20. [moved to paragraph 31]

21.7. The actual outcome of the condition, transaction or event that gave rise to an accounting estimate will often differ from the accounting estimate recognized in the prior period financial statements. This does not necessarily mean that there was a misstatement in the prior period’s financial statements. By understanding the reasons for any difference variance between the actual outcome and the prior period’s accounting estimate, however, the auditor may obtain:

(a) Obtains information regarding the effectiveness of management’s prior period estimation process, from which the auditor can judge the likely effectiveness of management’s current period process;

(b) Obtains audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates; and

(c) Obtains audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements; and

(d) Information indicating possible bias on the part of management.

28. Where there has been a difference in outcome, the auditor considers whether the difference represents a misstatement of the prior period financial statements by referring to the financial reporting framework, and determines whether any corrections or disclosures are required in the financial statements.

229. A change in an accounting estimate that results from changes in the circumstances on which the accounting estimate was based, or from new information or more experience, does not represent the correction of a misstatement in the prior period’s financial statements. However, subsequent changes in accounting estimates may arising from information that:

(a) was available to management when the prior period’s financial statements were finalized (and for which the auditor was not provided knowledge of), or that

(b) could reasonably be expected to have been obtained and taken into account in preparing and presenting those financial statements. Such circumstances,

do, however, provide evidence of misstatements in prior period financial statements. Such These misstatements include errors such as those resulting from the effects of mathematical mistakes,

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3 Such misstatements are sometimes referred to as “errors” in financial reporting frameworks.
mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes in accounting estimates that do not constitute misstatements.

30. The review of the outcome or re-estimation of prior period accounting estimates may assist the auditor in identifying circumstances or conditions that increase the susceptibility of an accounting estimate to, or indicate the presence of, possible management bias. The auditor’s attitude of professional skepticism is an important factor in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

2031. In the course of the auditor’s review of outcome, or re-estimation, of accounting estimates, the auditor recognizes that fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates. Therefore, the auditor’s review of the outcome, or re-estimation, of accounting estimates made in the prior period financial statements is usually carried out in conjunction with the requirements of paragraph 80(b) of ISA 240 (Revised), “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements.”

Assessment of the Risks of Material Misstatement

2332. ISA 315 requires the auditor, as part of the risk assessment, to identify and assess the risks of material misstatement at the assertion level and to determine which of the identified risks are, in the auditor’s judgment, significant risks that require special audit consideration. Such risks are described as “significant risks.”

33. In assessing the risks of material misstatement, the auditor considers the existence of factors indicating estimation uncertainty, and the degree of susceptibility to bias. Factors affecting estimation uncertainty include, but are not limited to, the following:

- The extent to which the accuracy of an accounting estimate depends on management’s judgment about the outcome of uncertain future conditions, transactions or events.
- The degree of sensitivity of the accounting estimate to changes in assumptions.
- The existence of recognized measurement techniques that may mitigate the estimation uncertainty.
- The relevance of data drawn from past events to predict future events.

34. Matters that the auditor considers in assessing the risks of material misstatement may also include the influence of such matters as:

- The actual or expected magnitude of an estimate;
- The recorded amount of the estimate in relation to the amount expected by the auditor to be recorded; and,
- The outcome of prior year estimates review.
Using information gathered from the risk assessment procedures, the auditor should determine which accounting estimates have high estimation uncertainty and may, therefore, give rise to be significant risks, that require special audit consideration.

Examples of estimates that may have high estimation uncertainty include the following:

- Accounting estimates that are highly dependent upon management’s judgment of the outcome of uncertain future conditions, transactions or events.
- Accounting estimates that are not capable of being calculated from generally accepted techniques or derived with some degree of precision from available data.
- The results of the auditor’s review of the outcome, or re-estimation, of accounting estimates made in the prior period financial statements indicate a substantial difference between the original estimate and the outcome.

In determining which accounting estimates have high estimation uncertainty, the auditor disregards the materiality of the amount currently recognized or disclosed in the financial statements. This is because even a seemingly immaterial estimate may have high estimation uncertainty.

In some circumstances, the estimation uncertainty is so high that a reasonable estimate cannot be made. The applicable financial reporting framework may, therefore, preclude recognition of the item being estimated in the financial statements. In such cases, the significant risks relate not only to whether an accounting estimate should be recognized but also to the adequacy of the disclosures. With respect to such accounting estimates, the auditor considers whether the financial reporting framework may require disclosure of the accounting estimates and the high estimation uncertainty associated with them. (See paragraphs 79-83).

Responses to the Risks of Material Misstatement

ISA 330, “The Auditor’s Procedures in Response to Assessed Risks” requires the auditor to design and perform audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement in relation to accounting estimates at both the financial statement and assertion levels. This ISA focuses on specific responses at the assertion level only. Materiality levels at the assertion level may differ from those at the financial statement level. This is discussed further in ISA 320, “Audit Materiality.”

Responses to the Risks of Material Misstatements
Events Occurring Up to the Date of the Auditor’s Report

28. For accounting estimates that the auditor has identified and assessed as having risks of material misstatement, the auditor should determine whether events occurring up to the date of the auditor’s report confirm, or contradict, the accounting estimate.

30340. In response to the assessed risks of material misstatement of an accounting estimate if confirming transactions or events are not expected to occur up to the date of the auditor’s report, the auditor should perform one or more of the following procedures:

(a) Determine whether events occurring up to the date of the auditor’s report confirm, or contradict, the accounting estimate.

(ab) Test management’s process used to make the accounting estimate.

(bc) Test the operating effectiveness of the controls over management’s process for making the accounting estimate, together with appropriate substantive procedures.

(ed) Make, or use an expert to make, an independent estimate for comparison with management’s accounting estimate.

41. The auditor’s decision as to which of the procedures, individually or in combination, to perform is a matter of judgment. This decision, however, is influenced by such matters as:

- the engagement circumstances;
- the nature of the estimate including whether it arises from routine or non routine transactions;
- whether the procedure(s) is expected to effectively provide the auditor with sufficient appropriate audit evidence; and
- the assessed risk of material misstatement, including whether the assessed risk is a significant risk.

Events Occurring Up to the Date of the Auditor’s Report

42. Determining whether events occurring up to the date of the auditor’s report confirm, or contradict, the accounting estimate may be an appropriate response to assessed risks of material misstatement when such events are expected to:

- occur;
- provide audit evidence regarding the measurement of an accounting estimate such as to remove the need to perform additional procedures on the estimate; and
- there is a long period after the balance sheet date available for review of such events by the auditor, which may be the case in the audit of some small entities.

2943. For example, sale of inventory of a superseded product, shortly after the period end, may provide audit evidence relating to the estimate of the net realizable value of that inventory. For such events to confirm the estimate made, and to remove the need to perform additional audit procedures on the estimate, the auditor obtains sufficient appropriate evidence about the events.
44. When such events contradict the accounting estimate made, the auditor considers whether this may be indicative of management having ineffective processes for over the making of accounting estimates.

45. With respect to accounting estimates that the auditor has identified as giving rise to significant risks, it is possible that events and transactions occurring up to the date of the auditor’s report may confirm the estimate and thus mitigate or eliminate the significant risk. The auditor, therefore, evaluates whether confirming transactions or events identified in meeting the requirements of paragraph 28 mitigate or eliminate significant risks identified by the auditor as part of the risk assessment procedures. For some accounting estimates, often those that give rise to significant risks, it may be unlikely that events occurring up to the date of the auditor’s report will confirm, or contradict, the accounting estimate. This may be the case for accounting estimates that relate to long-term assets or liabilities, where events occurring up to the date of the auditor’s report, if any, may provide only additional audit evidence about the estimate. In such cases, the auditor may choose instead to perform another of the procedures identified in paragraph 40.

46. A decision by the auditor not to determine whether events occurring up to the date of the auditor’s report confirm, or contradict, the accounting estimate does not relieve the auditor from complying with ISA 560, “Subsequent Events.” ISA 560 requires the auditor to design procedures to obtain audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified. Because the measurement of accounting estimates usually depends on the outcome of future conditions, transactions or events, the auditor’s work under ISA 560 is particularly relevant.

Testing Management’s Process

447. Testing the process used by management to develop the accounting estimate may be an appropriate response when, for example:

- The accounting estimate is derived from the routine processing of data by the entity’s accounting system.
- The auditor’s review of the outcome, or re-estimation, of accounting estimates of a similar nature made in the prior period financial statements, suggests that management’s current period process is likely to be effective.
- The accounting estimate is based on a large population of items of a similar nature that individually are not significant.

448. Testing the process used to make the accounting estimate ordinarily involves:

- Testing the extent to which the internal data on which the accounting estimate is based, is accurate, complete and relevant;
- Verifying the source of relevant external data;
- Recalculating the accounting estimate, and reviewing information about an accounting estimate for internal consistency;
Considering whether the significant assumptions made by management provide a reasonable basis for the accounting estimate;

Considering management’s review and approval processes; and

Considering whether there are any indicators of possible management bias in the making of the accounting estimate (see paragraphs 92-94).

In developing many accounting estimates, management makes assumptions about matters both within and outside its control. Examples of assumptions outside the control of management include: interest rates, exchange rates, mortality rates, inflation rates, and potential judicial or regulatory actions.

The auditor considers the assumptions, collectively and individually, in evaluating whether they reasonably support the accounting estimates. Assumptions are frequently interdependent, and therefore need to be internally consistent. An assumption that may appear reasonable when taken in isolation may not be reasonable when used in conjunction with other assumptions, either for that estimate or for other estimates. Assumptions made by an expert used by management to assist in making accounting estimates are ordinarily treated as though they were management’s. See ISA 620, “Using the Work of An Expert” for further guidance.

Support for significant assumptions can usually be obtained from management’s continuing processes of strategic analysis and risk management. Even without formalized processes, which may be the case in smaller entities, the auditor may be able to evaluate the assumptions through inquiries of management and external corroborative procedures such as obtaining confirmations from legal counsel.

The auditor’s evaluation of significant assumptions builds on the audit procedures described in paragraphs 33-36. Significant assumptions often reflect management’s intent to carry out courses of action relevant to the accounting estimate. Management often documents plans and intentions relevant to specific assets or liabilities and the financial reporting framework may require it to do so. While the extent of audit evidence to be obtained about management’s intent is a matter of professional judgment, the auditor’s procedures ordinarily include the following:

- Considering management’s history of carrying out its stated intentions.
- Reviewing written plans and other documentation, including, where applicable, formally approved budgets, authorizations, minutes, etc.
- Considering management’s stated reasons for a particular course of action.
- Considering management’s ability to carry out a particular course of action given the entity’s economic circumstances, including the implications of its existing commitments.

The auditor’s consideration of management’s assumptions can only be based only on information available to the auditor at the time of the audit. The auditor is not responsible for predicting future conditions, transactions or events that, if known at the time of the audit, might
have significantly affected management’s actions or management’s assumptions underlying the accounting estimates and disclosures.

3754. The auditor’s testing of the process used to develop an accounting estimate may suggest or establish that its reliability is highly dependent on management’s assumptions, indicating that the accounting estimate **has high estimation uncertainty and** may give rise to a significant risk. Additional responses to significant risks are described in paragraphs 63-83.

**Testing the Operating Effectiveness of the Controls Over the Process**

3855. ISA 330 requires the auditor to perform tests of controls when:

(a) The auditor’s assessment of risks of material misstatement at the assertion level is based on an expectation that controls over the process are operating effectively; or

(b) Substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As described in more detail in paragraphs 115-118 of ISA 315, audit evidence may be available only in electronic form such that its sufficiency and appropriateness depend on the effectiveness of controls over its accuracy and completeness.

3956. Testing the operating effectiveness of the controls over the process **may be** an appropriate response when, for example:

- Controls exist for the review and approval of the accounting estimates by appropriate levels of management and, where appropriate, by those charged with governance.
- The accounting estimate is derived from the routine processing of data by the entity’s accounting system.

4057. When performing tests of the operating effectiveness of controls, the auditor obtains audit evidence about how controls were applied at relevant times during the period under audit, the consistency with which they were applied, and by whom or by what means they were applied. Standards and guidance on testing controls is set out in paragraphs 28-47 of ISA 330.

4658. **When the auditor has assessed the identified risk a significant risk, the auditor is required,**

Where significant risks have not been reduced to an acceptably low level by confirming events, the auditor:

(a) To the extent not already done, evaluates the design of the entity’s controls, including relevant control procedures, and determines whether they have been implemented (paragraph 113 of ISA 315).
(b)—Further, if the auditor intends to rely on the entity’s controls, the auditor is required to obtain audit evidence about the operating effectiveness of internal controls (on which the auditor plans to rely) from tests of control performed in the current period\(^4\) (paragraph 44 of ISA 330).

### The Auditor’s Making of an Independent Point Estimate

459. Making an independent estimate (for example by using a model available in the sector or industry, an auditor-developed model, or otherwise) or by using generally accepted techniques to compare with management’s accounting estimate may be an appropriate response when, for example:

- An accounting estimate is not derived from the routine processing of data by the accounting system.
- The auditor’s review of the outcome, or re-estimation, of accounting estimates of a similar nature made in the prior period financial statements, suggests that management’s current period process is unlikely to be effective.
- The entity’s controls within and over management’s processes for determining accounting estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the auditor’s report contradict the accounting estimate.
- There are alternative sources of relevant data available to the auditor (but not used by management) which can be used in making a point estimate.

460. When the auditor making an independent estimate, the auditor may use assumptions different from those used by management. In these circumstances, the auditor still obtains an understanding of management’s assumptions in order to establish that the auditor’s model takes into account all the significant relevant variables. The auditor also establishes tests that the underlying internal data used in making the independent estimate is reliable.

461. The auditor may have the necessary skill and knowledge to make an independent estimate or may decide to use the work of an expert. When using the work of an expert, the auditor obtains sufficient appropriate audit evidence that such work is adequate for the purposes of the audit, and complies with the requirements of ISA 620, “Using the Work of an Expert.”

462. The making of a point independent estimate by the auditor may reveal that the reliability of an accounting estimate is highly sensitive to assumptions and therefore subject to high estimation uncertainty. This would indicate that the accounting estimate gives rise to a significant risk. Additional responses to significant risks are described in paragraphs 30(b) and 38-40.

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\(^4\) Such audit evidence is obtained only when the auditor has adopted an approach of “testing the operating effectiveness of the controls over management’s process for making the accounting estimate,” described in paragraphs 30(b) and 38-40.
Responses to Significant Risks

Further Substantive Procedures to Respond to Significant Risks

45. [moved to paragraph 44]
46. [moved to paragraph 57]

Substantive Procedures to Respond to Significant Risks

47-63. ISA 330 requires the auditor to perform substantive procedures that specifically respond to significant risks. In the context of estimates, the purpose of further substantive procedures is primarily to evaluate how management has assessed the effect of estimation uncertainty.

48-64. For accounting estimates that give rise to significant risks, in addition to any other substantive procedures performed to meet the requirements of ISA 330, the auditor should evaluate:

(a) Whether the significant assumptions made by management taken individually, and as a whole, provide a reasonable basis for the accounting estimate; and

(b) Whether and how management has considered alternative assumptions or outcomes, and why they have rejected them.

49. [moved to paragraph 51]

65. The evaluation of significant assumptions for accounting estimates that give rise to significant risks is required because of the influence that such assumptions are likely to have on such estimates. It is likely that the auditor will already have undertaken this work if the auditor has decided to test management’s process as a response to the assessed risk of material misstatement. Guidance on the auditor’s evaluation of significant assumptions is provided in paragraphs 50-53.

50-66. Management may evaluate alternative assumptions or outcomes of the accounting estimates through a number of methods, depending on the circumstances. One method used by management to do so is by applying a sensitivity analysis as a way of analyzing uncertainty by changing inputs. Such a sensitivity analysis might involve determining the degree of variation in the monetary amount of an accounting estimate from varying assumptions. A sensitivity analysis could lead to the development of a number of outcome scenarios such as “pessimistic,” “optimistic” or “neutral scenarios. A series of outcome scenarios sometimes are characterized as a range of outcomes by management.

52-67. A sensitivity analysis may demonstrate that the outcome of an accounting estimate is not sensitive to changes in particular assumptions. Alternatively, it may demonstrate that the
outcome is sensitive to one or more particular assumptions that then become the focus of the auditor’s attention.

53.68 The scenario used to determine the point estimate recognized to be used by management, in the financial statements is, after consideration of alternative assumptions or outcomes, in some cases, established by the requirements of the applicable financial reporting framework. In many cases, the scenario used will lead to the most likely outcome being required to be used as the point estimate. The auditor evaluates the rigor with which management determined the outcome scenario.

54.69 Where management has not applied a sensitivity analysis or considered alternative assumptions or outcomes, the auditor should request that management support whether and how it has assessed the effects of estimation uncertainty on the accounting estimate. Where the auditor has not obtained sufficient appropriate audit evidence, even after management has assessed the effects of estimation uncertainty, the auditor should consider whether it is practicable to develop a reasonable range of reasonable outcomes with which to evaluate the reasonableness of management’s point estimate.

70. In some circumstances, management may not have the expertise and experience to assess estimation uncertainty of the accounting estimate by performing, for example, a sensitivity analysis. In such cases, the auditor may explain to management the process, and the different methods available, for doing so. Such circumstances may arise, for example, in the audit of a smaller entity. In some cases, management may need to engage an expert to assist.

71. In some cases, the auditor may conclude that it is necessary to develop independently a “range of reasonable outcomes” with which to evaluate the reasonableness of management’s point estimate. For example, even though management has provided information it believes supports the estimate, the auditor may consider it necessary to develop a range of reasonable outcomes in order to obtain a different perspective on measurement uncertainty associated with the estimate.

55.72 To be useful to the auditor as an evaluation tool, the “reasonable range of reasonable outcomes” is usually not the range of all possible outcomes. Such a range would be too wide as it would include too many unlikely outcomes. To determine a range of reasonable outcomes that is sufficiently narrow to be useful, the auditor undertakes a process of eliminating from the range of possible those outcomes: High and low outcome values whose likelihood of occurrence is judged, by the auditor, to be remote; and those outcome values at the extremities of the range judged by the auditor to be outcomes that are unlikely to occur to arrive at a range containing outcomes that are as likely as not to occur.5

5 In some financial reporting frameworks such outcome values are described in terms of “less likely to occur than not.”
In narrowing the range of outcomes, the aim is to identify a range of reasonable outcomes that is equal to or less than [tolerable error]. Ordinarily, such a range is adequately narrow for the purposes of evaluating the reasonableness of management’s point estimate. There may be circumstances, however, where the range is greater than tolerable error. This fact does not necessarily preclude recognition of the estimate nor does it indicate that the outcomes within the range are not reasonable.

In cases where the range is greater than tolerable error, the auditor considers whether recognition criteria and disclosure requirements of the financial reporting framework have been met (see paragraphs 77-83).

The auditor may develop a reasonable range of reasonable outcomes in a number of ways, for example by:

• (a) Using a model, proprietary or commercial, into which the auditor introduces entity-specific data;
• (b) Further developing management’s sensitivity analysis by applying greater rigor to determining the appropriate outcome scenario, consideration of alternative assumptions or outcomes, for example by introducing a different set of assumptions;
• (c) Employing or engaging an expert with specialized expertise to develop or execute the model, or to provide relevant assumptions.

In determining a reasonable range of reasonable outcomes, the auditor takes into account considerations similar to those that apply to the making of an independent accounting estimate described in paragraphs 41-4459-62.

In particular, if management’s point estimate is not within the auditor’s reasonable range of reasonable outcomes, the auditor seeks to understand why. In some cases, this may lead the auditor to narrowing the range of reasonable outcomes with the aim of reducing it below tolerable error, where practicable.

Evaluating the Reliability of the Measurement of the Accounting Estimate

For accounting estimates that give rise to significant risks, the auditor should perform procedures to evaluate whether the audit evidence obtained is sufficient and appropriate to support management’s decision as to whether or not to recognize the accounting estimate in the financial statements in accordance with the recognition criteria of the applicable financial reporting framework.

The auditor evaluates the sufficiency and appropriateness of audit evidence supporting management’s judgments about the appropriateness of recognizing an accounting estimate.

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6 ISA XXX, (“Materiality in Planning and Performing the Audit”) defines tolerable error as “the largest possible misstatement of a class of transactions, account balance or disclosure that, when aggregated with misstatements in other classes of transactions, account balances or disclosures, would not create an unacceptable risk of material misstatement of the financial statements.”
estimate. Where management has recognized an accounting estimate in the financial statements, the auditor evaluates whether its measurement is sufficiently reliable to meet the recognition criteria of the applicable financial reporting framework. The auditor also evaluates whether the measurement of an accounting estimate that has not been recognized is, in fact, sufficiently reliable to meet the recognition criteria of the applicable financial reporting framework.

With respect to accounting estimates that have not been recognized the auditor considers the adequacy of the disclosures in the notes to the financial statements and also whether to modify the auditor’s report needs to be modified, to draw the reader’s attention to the significant uncertainty, by adding an emphasis of matter paragraph. Proposed ISA 706, “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report,” provides standards and guidance concerning such paragraphs.

Evaluating the Disclosure of Estimation Uncertainty in the Financial Statements

Where an accounting estimate falls within a reasonable range of outcomes that is greater than materiality, for accounting estimates that give rise to significant risks, the auditor should determine whether the applicable financial reporting framework requires disclosure of the estimation uncertainty and, if so, evaluate the adequacy of such disclosure.

The presentation of financial statements in conformity with the applicable financial reporting framework includes adequate disclosure of material matters. In relation to estimates having significant risk, even where the auditor is able to obtain sufficient appropriate audit evidence, the auditor may conclude that estimation uncertainty relating to such estimate needs to be disclosed in light of the circumstances and facts involved. The auditor’s evaluation of the adequacy of disclosure of estimation uncertainty is particularly important when management’s point estimate falls within the auditor’s range of reasonable outcomes that is greater than tolerable error.

The auditor also considers any additional requirements of the applicable financial reporting framework for disclosures regarding uncertainties. For example, some financial reporting frameworks prescribe the disclosure of key assumptions about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. Such requirements are described using terms such as

—“Key sources of estimation uncertainty” or

—“Critical Accounting Estimates”.

Where the applicable financial reporting framework does not prescribe disclosure of estimation uncertainty, the auditor nevertheless encourages management to describe, in the notes to the financial statements, the circumstances giving rise to a reasonable range that is wider than materiality relating to the estimation uncertainty. ISA 701, “Modifications to the Opinion in the Independent Auditor’s Report” provides guidance on the implications for the auditor’s report when the auditor believes that management’s disclosure of estimation uncertainty in the financial statements is inadequate.
Evaluating Audit Evidence and Concluding on the Reasonableness of the Accounting Estimate

84. The auditor should evaluate the sufficiency and appropriateness of audit evidence as to whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the entity’s applicable financial reporting framework.

58. The auditor may obtain audit evidence from performing the audit procedures to respond to significant risks, that management’s accounting estimates are reasonable in the context of the applicable financial reporting framework. This would be the case, for example, when management’s point estimate was within the reasonable range of outcomes determined by the auditor. Alternatively, the auditor may conclude that the evidence points to an estimate that differs from management’s estimate, and that the difference between the auditor’s estimate and management’s estimate constitutes a financial statement misstatement.

59. If the auditor believes, based on audit procedures undertaken, that management has not adequately supported the reasonableness of the accounting estimate or if the auditor believes that management has failed to consider information that is reasonably available to it, the auditor should consider the implications for the auditor’s report. ISA 705 provides standards and guidance regarding expressing either a qualified opinion or disclaimer of opinion, when it is not possible for the auditor to obtain sufficient appropriate audit evidence about matters that could be material to the financial statements. The auditor requests management to perform further work to provide additional information to support the recognition of the point estimate. Management may need to engage an expert to assist in obtaining the support, or management may need to perform analysis of data or obtain information from industry or other sources to support its view.

60. If management does not perform further work requested by the auditor to support management’s estimate, or if the auditor believes that management has failed to consider information that is reasonably available to it, the auditor should consider the implications for the auditor’s report. ISA 705 provides standards and guidance regarding expressing either an except for qualified opinion or disclaimer of opinion, when it is not possible for the auditor to obtain sufficient appropriate audit evidence about matters that could be material to the financial statements.

Evaluating the Reliability of the Measurement of the Accounting Estimate

61. [moved to paragraph 75]

62. [moved to paragraph 76]

63. [moved to paragraph 77].

Evaluating Audit Evidence and Determining Misstatements

64. The auditor should determine whether accounting estimates and related disclosures are reasonable in the context of the entity’s applicable financial reporting framework.
65. This ISA provides standards and guidance on the auditor’s determination and documentation of misstatements relating to individual accounting estimates. This ISA does not, however, provide the auditor with standards and guidance on evaluating the effect of uncorrected misstatements. Paragraphs 35-38 of proposed ISA 320 (Revised), “Materiality in the Identification and Evaluation of Misstatements,” provide standards and guidance on the auditor’s evaluation of the effect on the financial statements of all misstatements identified during the audit, including those relating to accounting estimates.

66. Proposed ISA 320 (Revised) divides provides guidance on materiality and how it is used in the identification and evaluation of misstatements when performing an audit of financial statements. Misstatements are defined into the following categories:

(i) Misstatements of fact;

(ii) Misstatements involving subjective decisions; and

(b) Likely misstatements. The following paragraphs provide the auditor with guidance on classifying misstatements relating to accounting estimates.

**Known Misstatements—Misstatements of Fact**

67. A misstatement of fact relating to an accounting estimate is found to exist if the auditor obtains audit evidence that, in making an accounting estimate, management has:

(a) Made mistakes in gathering or processing data;

(b) Made mistakes in interpreting. Not followed the requirements of the applicable financial reporting framework; or

(c) Misinterpreted or overlooked facts.

**Known Misstatements—Misstatements Involving Subjective Decisions**

68. A misstatement involving subjective decisions arises from differences between management’s and the auditor’s judgment concerning the reasonableness of accounting estimates, in the context of the applicable financial reporting framework. Such misstatements differ from misstatements of fact because the audit evidence is often less persuasive.

86. The auditor may conclude that the evidence points to an estimate that differs from management’s point estimate, and that the difference between the auditor’s estimate and management’s estimate constitutes a financial statement misstatement.

87. Such misstatement may arise as a result of:

- Mistakes in gathering or processing data, and the overlooking or clear misinterpretation of facts (factual misstatements).
- Differences arising from management’s judgments concerning accounting estimates (judgmental misstatements).
- Misstatements, which, when taken together with the aggregate misstatements of fact and misstatements involving subjective decisions, the auditor projects, based on an extrapolation.
from audit evidence obtained, may exceed materiality with a greater than acceptable low level of risk (projected misstatements).

In some cases, a misstatement could arise as a result of a combination of these circumstances to which separate identification is difficult or impossible. ISA XXX [Aggregating and Evaluating of Misstatements”] provides standards and guidance on classifying misstatements for purposes of the auditor’s evaluation of the effect on the financial statement of all misstatements identified during the audit, including those relating to accounting estimates.

88. In some cases, it may be possible that the audit evidence obtained may enable the auditor to ascertain a range of reasonable outcomes, but not to determine a specific point estimate from within that range. A misstatement exists when management’s point estimate lies outside such a range of reasonable outcomes, and is measured as the difference between management’s point estimate and the nearest point of the range of reasonable outcomes. In other cases, audit evidence may exist enabling the auditor to make a probability assessment concerning the likelihood of various outcomes within the range of reasonable outcomes. The auditor is therefore able to determine a point estimate for comparison with that of management’s. In such cases, the difference between the auditor’s point estimate and management’s point estimate constitutes a financial statement misstatement.

69. As discussed in paragraphs 54-57, where management has not applied a sensitivity analysis or considered alternative outcomes, where the auditor may develop a reasonable range of outcomes with which to evaluate the reasonableness of management’s point estimate. If the auditor and is able to make a probability assessment concerning the likelihood of various outcomes within the reasonable range being the actual outcome, the known misstatement involving subjective decision is the difference between management’s point estimate and the auditor’s point estimate. This applies regardless of whether management’s point estimate falls inside or outside the auditor’s reasonable range of outcomes.

70. If the auditor is unable to make an assessment concerning the likelihood of outcomes within the reasonable range of outcomes, the auditor concludes that an accounting estimate is not misstated if it falls within the range and the relative location of the accounting estimate within the range has not changed from the prior period.

71. If management’s accounting estimate lies outside the auditor’s reasonable range of outcomes, where each outcome is equally likely to occur, there is a known misstatement involving subjective decisions of, at least, the difference between management’s accounting estimate and the nearest point of the reasonable range.

**Management Changes the Location of an Accounting Estimate within a Reasonable Range of Outcomes from Period to Period**

7289. An accounting estimate is also misstated if, without good reason, management arbitrarily changes the location of an accounting estimate from the prior period – that is, there has been no
change in circumstances or new information upon which the change is based. Arbitrary changes in an accounting estimate result in inconsistent financial statements over time, in that recognized income would increase without any corresponding improvement in the underlying quality of the entity’s earnings. In this example, the auditor measures the misstatement as the difference between the accounting estimate made by management, and what it would have been if management had used the same relative location in the reasonable range used in the prior period.

90. Arbitrary changes by management in an accounting estimate, however, are unlikely to be common. Management often is able to demonstrate good reason for a change in an accounting estimate from one period to another based on a change in circumstances. What constitutes a good reason, and the adequacy of support for the contention that there has been a change in circumstances that warrants a change in an accounting estimate, is a matter of judgment. The auditor, however, is responsible to obtain sufficient appropriate audit evidence in relation to management’s basis for the change.

73. What constitutes a good reason for changing the location from one period to another is a matter of judgment. For example, if there has been a change in management the new management may have different intentions and as a result evaluate business risks differently. When management contends that a change in circumstances provides a good reason for a change in location, the auditor considers the adequacy of the support for this contention.

Likely Misstatements

74. Likely misstatements are misstatements the auditor considers likely to exist from an extrapolation from audit evidence, for example, the amount obtained by projecting known misstatements identified in an audit sample to the entire population from which the sample was drawn. Audit evidence relating to accounting estimates may give rise to likely misstatements when the auditor finds sampling errors when testing the data underlying an accounting estimate.

91. Based on audit evidence obtained, the auditor concludes whether an accounting estimate and related disclosures made by management are reasonable in the context of the entity’s applicable financial reporting framework.

Indicators of Possible Management Bias

7592. The auditor should consider whether there are indicators of possible management bias in the making of individual accounting estimates.

76. When performing the risk assessment and other audit procedures described in this ISA, the auditor is alert for indicators of possible management bias, that is, lack of neutrality in the making of accounting estimates. For example, management may be motivated to choose an accounting estimate or assumptions that tend to increase (or avoid decreasing) the carrying amount of assets and accounting estimates that tend to understate liabilities, as a means of managing earnings. With respect to a reasonable range of outcomes where each outcome in the range is equally likely to occur, some financial reporting frameworks consider the mid-point of the range to be neutral and therefore free from bias.
93. The auditor considers whether judgments and decisions made by management give rise to indicators of possible management bias. Such indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. However, the presence of indicators of possible management bias may affect the auditor’s conclusion as to whether the auditor’s risk assessment remains appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor’s evaluation of whether the financial statements as a whole are free of material misstatement. ISA XXX, [“Aggregating and Evaluating Misstatements”], provides standards and guidance on these considerations.

7794. The following provide examples of indicators of possible management bias with respect to accounting estimates that the auditor may identify during the evaluation of audit evidence include:

- Changes in an accounting estimate where management’s interpretation and assessment of whether there has been a change in circumstances is subjective.
- Selection or construction of significant assumptions that yield a point estimate favorable for management objectives.
- Selection of a point estimate by management such that the outcome scenario is indicative of a pattern when considered in conjunction with the optimism or pessimism of other accounting estimates.

78. This ISA provides standards and guidance relating to the auditor’s consideration and documentation of indicators of possible management bias with respect to individual accounting estimates. Proposed ISA 320 (Revised) provides the auditor with guidance on evaluating whether possible management bias identified during the audit gives rise to an uncorrected misstatement with respect to the financial statements taken as a whole.

Evaluating the Disclosure of Estimation Uncertainty in the Financial Statements

8295. The auditor should obtain written representations from management regarding the reasonableness of significant assumptions used by them in making accounting estimates.

8396. ISA 580, “Management Representations” discusses the use of management representations. Depending on the nature, materiality and extent of estimation uncertainty, management representations about accounting estimates recognized or disclosed in the financial statements may include representations:
• About the appropriateness of the measurement processes, including related assumptions, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes;

• That disclosures related to accounting estimates are complete and appropriate under the entity’s financial reporting framework; and

• That no subsequent events require adjustment to the accounting estimates and disclosures included in the financial statements.

Documentation

8497. In addition to the documentation requirements set out in ISA 230, “Audit Documentation,” and those specified in ISA 315 and ISA 330, the auditor should document:

(a) The results of the auditor’s risk assessment procedures;

(b) The assessed risks of material misstatement of accounting estimates at the assertion level, and the nature, timing and extent of further audit procedures responsive to the risks;

(c) The results of tests of controls and substantive procedures that respond to significant risks;

(d) Misstatements identified by the auditor; and

(e) Indicators of possible management bias.

98. ISA 230 requires the auditor to prepare audit documentation that provides a sufficient and appropriate record of the basis for the auditor’s report. Depending on the circumstances, the auditor’s documentation may therefore include documentation relating to:

• Management’s decision as to whether or not to recognize the accounting estimate in the financial statements.

• The reasonableness of accounting estimates and related disclosures.

• The adequacy of the disclosure of estimation uncertainty.

99. The auditor’s documentation of the following is carried out as part of the documentation requirements of ISA 315 and ISA 330:

(a) The results of the auditor’s risk assessment procedures.

(b) The assessed risks of material misstatement of accounting estimates at the assertion level, and the nature, timing and extent of further audit procedures responsive to the assessed risks.

(c) The results of tests of controls and substantive procedures responsive to significant risks.

Effective Date

85100. This ISA is effective for audits of financial statements for periods beginning on or after [date].