Supplement to Agenda Item 2

Comparison of Draft Proposed ISA 540 (Revised) with Extant ISA 540[1]

Note: Given the extensive changes to ISA 540, the CAG is being provided with a comparison of the proposed text and the existing ISA 540 text. The column on the left is extracted from extant ISA 540 while the column on the right shows the proposed text of ISA 540 (Revised) as presented in **Agenda Item D.2**.

Extant ISA 540	Draft Proposed ISA 540 (Revised)
Scope of this ISA 1. This International Standard on Auditing (ISA) 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 315 (Revised)[2] and ISA 330[3] 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.	**Scope of this ISA** 1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised), ISA 330, ISA 500[4] 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.
Nature of Accounting Estimates 2. Some financial statement items cannot be measured precisely, but can only be estimated. For purposes of this ISA, such financial statement items are referred to as accounting estimates. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimation uncertainty associated with accounting estimates. The degree of estimation uncertainty affects, in turn, the risks of material misstatement of accounting estimates, including their susceptibility to	**Nature of Accounting Estimates** 2. Many financial statement items are susceptible to an inherent lack of precision in their measurement. In the ISAs, such financial statement items are referred to as accounting estimates. Accounting estimates vary widely in nature, and may be subject to, or affected by, complexity, the need for the use of judgment by management, and estimation uncertainty. The extent to which this is the case affects the auditor's identification and assessment of the risks of material misstatement relating to accounting estimates, and the auditor's responses to those assessed risks. (Ref: Para: A1A, Appendix 1, Appendix 2)

[1] ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

[2] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment*

[3] ISA 330, *The Auditor`s Responses to assessed Risks*

[4] ISA 500, *Audit Evidence*

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unintentional or intentional management bias. (Ref: Para. A1–A11) 3. The measurement objective of accounting estimates can vary depending on the applicable financial reporting framework and the financial item being reported. The measurement objective for some accounting estimates is to forecast the outcome of one or more transactions, events or conditions giving rise to the need for the accounting estimate. For other accounting estimates, including many fair value accounting estimates, the measurement objective is different, and is expressed in terms of the value of a current transaction or financial statement item based on conditions prevalent at the measurement date, such as estimated market price for a particular type of asset or liability. For example, the applicable financial reporting framework may require fair value measurement based on an assumed hypothetical current transaction between knowledgeable, willing parties (sometimes referred to as "marketplace participants" or equivalent) in an arm's length transaction, rather than the settlement of a transaction at some past or future date. 4. A difference between the outcome of an accounting estimate and the amount originally recognized or disclosed in the financial statements does not necessarily represent a misstatement of the financial statements. This is particularly the case for fair value accounting estimates, as any observed outcome is invariably affected by events or conditions subsequent to the date at which the measurement is estimated for purposes of the financial statements.	3. Accounting estimates may be more susceptible to a risk of material misstatement when: (a) With respect to complexity, management does not: (i) Apply appropriate specialized skills or knowledge in the selection, design or application of the method used to make the accounting estimate, including when the method involves complex modelling; (ii) Appropriately understand the relevance and reliability of the data used, regardless of whether the data is obtained from internal sources or from external information sources; or (iii) Maintain the integrity of the data used. (b) With respect to the need for the use of judgment management does not: (i) Appropriately take into account available information when selecting methods, assumptions, or data; or (ii) Mitigate the risk of management bias; and (c) With respect to estimation uncertainty, management does not: (i) Take appropriate steps to address estimation uncertainty; or (ii) Select an appropriate management point estimate or make appropriate related disclosures in the financial statements.
	Key Concepts of This ISA 3A. This ISA focuses the auditor's attention on designing and performing further audit procedures (including, where appropriate, tests of controls) responsive to the reasons for the assessment given to the assessed

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	risks of material misstatement, particularly when those reasons include complexity, judgment or estimation uncertainty. This ISA also recognizes that the factors complexity, judgment or estimation uncertainty are interrelated and that there are inherent limitations in reducing estimation uncertainty beyond certain limits. 3B. The application of professional skepticism by the auditor is particularly important to the auditor's work relating to accounting estimates. Professional skepticism also is important because there is a particular risk of management bias affecting accounting estimates due to their subjective, potentially complex and uncertain nature, and the possible combined effect of complexity, judgment and estimation uncertainty. 4. This ISA requires an overall evaluation of accounting estimates based on the audit procedures performed and the audit evidence obtained. In doing so, the auditor is required to evaluate whether the accounting estimates, and related disclosures, are reasonable. For this purpose, the evaluation of reasonableness involves considerations beyond whether the accounting estimate and related disclosures comply with the requirements of the applicable financial reporting framework. (Ref: Para. A1B–A1C).
Effective Date 5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.	**Effective Date** 5. This ISA is effective for audits of financial statements for periods beginning on or after [TBA].
Objective 6. 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	**Objective** 6. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether: (a) Accounting estimates, whether recognized or disclosed in the financial statements; and

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(b) related disclosures in the financial statements are adequate, in the context of the applicable financial reporting framework.	(b) Related disclosures in the financial statements, are reasonable in the context of the applicable financial reporting framework.
Definitions 7. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Accounting estimate – An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this ISA addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used. (b) Auditor’s point estimate or auditor’s range – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate. (c) Estimation uncertainty – The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement. (d) Management bias –A lack of neutrality by management in the preparation of information. (e) Management’s point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate. (f) Outcome of an accounting estimate – The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.	**Definitions** 7. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Accounting estimate – A monetary amount, prepared in accordance with the requirements of the applicable financial reporting framework, the measurement of which is subject to estimation uncertainty. (Ref: Para. A11A) (b) Auditor’s point estimate or auditor’s range – An amount, or range of amounts, respectively, developed by the auditor in evaluating management’s point estimate. (Ref: Para. A11B) (c) Estimation uncertainty – The susceptibility of an accounting estimate to an inherent lack of precision in its measurement. (Ref: Para. A11C) (d) Management bias – A lack of neutrality by management in the preparation of information. (Ref: Para. A11D) (e) Management’s point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate. (f) Outcome of an accounting estimate – The actual monetary amount that results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by an accounting estimate. (Ref: Para A11E)

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Requirements	***Requirements***
Risk Assessment Procedures and Related Activities	**Risk Assessment Procedures and Related Activities**
8. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, as required by ISA 315 (Revised), the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: (Ref: Para. A12) (a) The requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures. (Ref: Para. A13–A15) (b) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates. (Ref: Para. A16–A21) (c) How management makes the accounting estimates, and an understanding of the data on which they are based, including: (Ref: Para. A22–A23) (i) The method, including where applicable the model, used in making the accounting estimate; (Ref: Para. A24–A26) (ii) Relevant controls; (Ref: Para. A27–A28) (iii) Whether management has used an expert; (Ref: Para. A29–A30)	8. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including its internal control, as required by ISA 315 (Revised), the auditor shall obtain an understanding of the following: (Ref: Para. A12) (a) The requirements of the applicable financial reporting framework relevant to accounting estimates, including the recognition criteria, measurement bases and the related presentation and disclosure requirements. (Ref: Para. A13–A15) (aA) Regulatory factors relevant to accounting estimates. (Ref: Para. A15A–A15C) (aB) The nature of the accounting estimates that the auditor expects to be included in the entity's financial statements. (Ref: Para. A15D–A15E) (b) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates. (Ref: Para. A16–A21) (c) How management makes accounting estimates, including: (Ref: Para. A22–A23) (i) The methods used, how they are selected or designed, and how they are applied, including the extent to which they involve complex modelling; (Ref: Para. A23A–A26)

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(iv) The assumptions underlying the accounting estimates; (Ref: Para. A31–A36) (v) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and (Ref: Para. A37) (vi) Whether and, if so, how management has assessed the effect of estimation uncertainty. (Ref: Para. A38)	(ii) The process used to select assumptions, including alternatives considered and how management identifies significant assumptions; (Ref: Para. A26A–A35D) (iiA) The process used to select data, including the source(s) of that data and how management identifies significant data; (Ref: Para. A35E–A35H) (iii) The extent to which management has applied specialized skills or knowledge, including whether a management's expert has been used; (Ref: Para. A35I–A35J) (iiiA) How the risk of management bias is identified and addressed; (Ref: Para. A35K) (iv) How management has addressed estimation uncertainty; and (Ref: Para. A38) (v) Whether management has addressed the need for a change from the prior period in the methods, assumptions or data used, and if so, the nature of, and reasons for, such changes. (Ref: Para. A38A). (d) Each of the components of internal control as they relate to making accounting estimates. (Ref: Para. A38B–A38P)
9. The auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements. However, the review is not intended to call	9. The auditor shall review the outcome or re-estimation of previous accounting estimates to the extent that doing so will assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question, based on new information, judgments about previous accounting estimates that were appropriate based on the information available at the time. (Ref: Para.

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into question the judgments made in the prior periods that were based on information available at the time. (Ref: Para. A39–A44)	A38Q–A44) 9A. The auditor shall consider whether specialized skills or knowledge are required, in order to perform the risk assessment procedures, or to identify and assess the risks of material misstatement. (Ref: Para. A44A-A44E)
Identifying and Assessing the Risks of Material Misstatement 10. In identifying and assessing the risks of material misstatement, as required by ISA 315 (Revised), the auditor shall evaluate the degree of estimation uncertainty associated with an accounting estimate. (Ref: Para. A45–A46) 11. The auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks. (Ref: Para. A47–A51)	**Identifying and Assessing the Risks of Material Misstatement** 10. In applying ISA 315 (Revised), the auditor is required to identify and assess the risks of material misstatement, at the financial statement and assertion levels, and to determine whether any of the risks of material misstatement identified are, in the auditor's judgment, significant risks. In identifying and assessing risks of material misstatements in relation to an accounting estimate, the auditor shall take into account the extent to which the accounting estimate is subject to, or affected by relevant factors, including: (Ref: Para. A44F–A44M) (a) Complexity in making the accounting estimate, including: (i) The extent to which the method used by management involves specialized skills or knowledge, including with respect to the use of a model; and (Ref: Para. A44N–A44P) (ii) The difficulty, if any, in obtaining relevant and reliable data and maintaining the integrity of that data; (Ref: Para. A44Q) (b) The need for the use of judgment by management and the potential for management bias, including with respect to methods, assumptions, and data; and (Ref: Para. A44R–A44T) (c) Estimation uncertainty, including the extent to which the accounting estimate is sensitive to the selection of different methods or to variations in the

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	assumptions and data used. (Ref: Para. A44U–A49C)
Responses to the Assessed Risks of Material Misstatement	**Responses to the Assessed Risks of Material Misstatement** 11A. In responding to the assessed risks of material misstatement related to accounting estimates, the auditor shall consider whether specialized skills or knowledge are required to design and perform audit procedures, or to evaluate the results of those procedures. (Ref: Para. A44A–A44F)
12. Based on the assessed risks of material misstatement, the auditor shall determine: (Ref: Para. A52) (a) Whether management has appropriately applied the requirements of the applicable financial reporting framework relevant to the accounting estimate; and (Ref: Para. A53–A56) (b) Whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether changes, if any, in accounting estimates or in the method for making them from the prior period are appropriate in the circumstances. (Ref: Para. A57–A58) 13. In responding to the assessed risks of material misstatement, as required by ISA 330, the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate: (Ref: Para. A59–A61) (a) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate. (Ref: Para. A62–A67) (b) Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor	13. In applying ISA 330, the auditor is required to design and perform further audit procedures to respond to the assessed risks of material misstatement, including significant risks, at the assertion level. In doing so, the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that relevant controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. With respect to accounting estimates: (Ref: Para. A57A–A57G) (a) If the assessed risk of material misstatement is low, but not because that assessment includes an expectation that relevant controls are operating effectively, the auditor shall consider whether a procedure(s) that addresses management's point estimate at an overall level would provide sufficient appropriate audit evidence regarding the assessed risk of material misstatement in the circumstances. (Ref: Para. A57H) (b) If the assessed risk of material misstatement is low and that assessment includes an expectation that relevant controls are operating effectively, the

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shall evaluate whether: (Ref: Para. A68–A70) (i) The method of measurement used is appropriate in the circumstances; and (Ref: Para. A71–A76) (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework. (Ref: Para. A77–A83) (c) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures. (Ref: Para. A84–A86) (d) Develop a point estimate or a range to evaluate management's point estimate. For this purpose: (Ref: Para. A87–A91 (i) If the auditor uses assumptions or methods that differ from management's, the auditor shall obtain an understanding of management's assumptions or methods sufficient to establish that the auditor's point estimate or range takes into account relevant variables and to evaluate any significant differences from management's point estimate. (Ref: Para. A92) (ii) If the auditor concludes that it is appropriate to use a range, the auditor shall narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable. (Ref: Para. A93–A95) 14. In determining the matters identified in paragraph 12 or in responding to the assessed risks of material misstatement in accordance with paragraph 13, the auditor shall consider whether specialized skills or knowledge in relation to one or more aspects of the accounting estimates are required in	auditor's further audit procedures shall include tests of controls to obtain audit evidence about the matters in paragraphs 13A–13C, when applicable. Such procedures shall be responsive to the reasons for the assessment given to the risk of material misstatement in accordance with paragraph 10. (Ref: Para. A57I) (c) If the assessed risk of material misstatement is not low, the auditor's further audit procedures shall include procedures to obtain audit evidence about the matters in paragraphs 13A–13C, when applicable. Such procedures (whether substantive procedures or tests of controls) shall be responsive to the reasons for the assessment given to the risk of material misstatement in accordance with paragraph 10, recognizing that the higher the assessed risk the more persuasive the audit evidence needs to be. (Ref: Para. A57J–A57L) *Complexity* 13A. In complying with paragraphs 13(b) or 13(c), when the reasons for the assessment given to the risk of material misstatement include complexity, the auditor shall obtain sufficient appropriate audit evidence about the following matters when management uses a complex method (including complex modelling), or when management's method otherwise involves the use of specialized skills or knowledge: (Ref: Para A59A–A59D) (a) Whether the method, and significant data and assumptions, are appropriate in the context of the applicable financial reporting framework; (b) Whether significant data is relevant and reliable; (c) Whether management has appropriately understood or interpreted significant

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order to obtain sufficient appropriate audit evidence. (Ref: Para. A96–A101)	data, including with respect to contractual terms; (Ref: Para. A59E) (d) Whether the integrity of significant data and assumptions has been maintained in applying the method; and (Ref: Para. A59F) (e) Whether the calculations are mathematically accurate and are appropriately applied. *Judgment* 13B. In complying with paragraph 13(b) or 13(c), when the reasons for the assessment given to the risk of material misstatement include the need for the use of judgment by management, the auditor shall obtain sufficient appropriate audit evidence about the following matters: (a) When the accounting estimate involves the use of significant data or assumptions: (i) Whether management's judgments regarding the selection of the method and the significant data and assumptions: (Ref: Para A59G) a. Are appropriate in the context of the measurement objectives and other requirements of the applicable financial reporting framework; or b. Give rise to indicators of possible management bias; (ii) Whether management's judgments about changes from previous periods in the method or the significant data or assumptions, are appropriate (Ref: Para. A59H–A59L); (iii) Whether significant assumptions are consistent with each other and with those used in other accounting estimates or areas of the entity's business activities;

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	(iv) Whether management's judgments in applying the requirements of the applicable financial reporting framework are appropriate; (b) When relevant to the appropriateness of the significant assumptions or the appropriate application of the requirements of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so (Ref: Para. A59M); (c) When management's application of the method involves complex modelling, whether judgments made have been applied consistently and whether, when applicable: (i) The design of the model meets the measurement objective of the applicable financial reporting framework and is appropriate in the circumstances; (ii) Changes, if any, from the previous period's model are appropriate in the circumstances; and (iii) Adjustments, if any, to the output of the model are consistent with the measurement objective of the applicable financial reporting framework. (Ref: Para A59N) *Estimation Uncertainty* 13C. In complying with paragraph 13(b) or 13(c), when the reasons for the assessment given to the risk of material misstatement include estimation uncertainty, the auditor shall obtain sufficient appropriate audit evidence about the following matters: (a) Whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to: (Ref: Para. A59O) (i) Understand and address the

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	estimation uncertainty, and develop a point estimate that meets the measurement objective of the applicable financial reporting framework; and (ii) Whether: (a) Management's point estimate is reasonable; and (Ref: Para. A59V-A59Z) (b) The disclosures in the financial statements that describe the estimation uncertainty are reasonable. (Ref: Para. A60A–A60B) (b) When, in the auditor's judgment, management has not appropriately addressed the effect of estimation uncertainty, based on the audit evidence obtained, the auditor shall, to the extent possible, develop an auditor's point estimate or range to enable the auditor to evaluate the reasonableness of management's point estimate and the disclosures in the financial statements that describe the estimation uncertainty. (Ref: Para A60C–A60K) (c) If, based on the audit evidence obtained, the auditor concludes that it is not appropriate to determine an auditor's point estimate, but that it is appropriate to develop an auditor's range, the auditor shall only include in that range amounts that: (Ref: Para A60L–A60M) (i) Are supported by the audit evidence; and (ii) The auditor has evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.

Further Substantive Procedures to Respond to Significant Risks *Estimation Uncertainty* 15. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of ISA 330, the auditor shall evaluate the following: (Ref: Para. A102) (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate. (Ref: Para. A103–A106) (b) Whether the significant assumptions used by management are reasonable. (Ref: Para. A107–A109) (c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so. (Ref: Para. A110) 16. If, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate. (Ref: Para. A111–A112) *Recognition and Measurement Criteria* 17. For accounting estimates that give rise to significant risks, the auditor shall obtain sufficient appropriate audit evidence about whether: (a) Management's decision to recognize, or to not recognize, the accounting	

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estimates in the financial statements; and (Ref: Para. A113–A114) (b) The selected measurement basis for the accounting estimates, (Ref: Para. A115) are in accordance with the requirements of the applicable financial reporting framework.	
	Disclosures Related to Accounting Estimates 13D. The auditor shall obtain sufficient appropriate audit evidence to evaluate whether the accounting estimates have been appropriately disclosed in accordance with the requirements of the applicable financial reporting framework and: (Ref: Para. A120–A121A) (a) In the case of a fair presentation framework, shall evaluate whether it is necessary for management to provide disclosures beyond those specifically required by the framework to achieve the fair presentation of the financial statements as a whole, or (b) In the case of a compliance framework, shall evaluate whether the disclosures are appropriate for the financial statements not to be misleading.
Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements 18. The auditor shall evaluate, based on the audit evidence, whether the accounting estimates in the financial statements are either reasonable in the context of the applicable financial reporting framework, or are misstated. (Ref: Para. A116–A119)	**Overall Evaluation Based on Audit Procedures Performed** 13E. In applying ISA 330 to the accounting estimates for which the auditor's further audit procedures address the matters in paragraphs 13A-13C, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A121B–A121D) (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified; and

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	(b) Sufficient appropriate audit evidence has been obtained; and (c) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework. 13F. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. In making this evaluation, the auditor shall consider all relevant audit evidence obtained whether corroborative or contradictory. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit. (Ref: Para. A1B–A1C, A121E–A121H)
Indicators of Possible Management Bias 21. The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates. (Ref: Para. A124–A125)	**Indicators of Possible Management Bias** 21. The auditor shall evaluate whether judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate possible bias on the part of the entity's management. When indicators of possible bias are identified the auditor shall evaluate the implications for the audit. (Ref: Para. A121I–A121N)
Written Representations 22. The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable. (Ref: Para. A126–A127)	**Written Representations** 22. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that they believe the methods and significant data and assumptions used in making the accounting estimates and their related disclosures are appropriate. The auditor shall also consider the need to obtain

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	representations about specific accounting estimates, including in relation to the methods, assumptions, or data used. (Ref: Para. A126–A127)
	Communication with Those Charged With Governance or Management 22A. In applying ISA 260 (Revised)[5] and ISA 265[6], the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively. In doing so, the auditor shall consider the matters, if any, to communicate related to the extent to which the accounting estimates and their related disclosures are affected by, or subject to, estimation uncertainty, complexity, use of judgment by management, or other relevant factors. (Ref: Para. A127A–A127C)
Documentation 23. The auditor shall include in the audit documentation: (a) The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and (b) Indicators of possible management bias, if any. (Ref: Para. A128)	**Documentation** 23. The audit documentation shall include: (a) The basis for the auditor's evaluation of the reasonableness of the accounting estimates and related disclosures; and (b) Indicators of possible management bias, if any, and the auditor's evaluation thereof in forming the auditor's opinion on whether the financial statements as a whole are materially misstated. (Ref: Para. A128)

[5] ISA 260 (Revised), *Communication with Those Charged with Governance*

[6] ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*