Agenda Item 2-C Updated

Note to IAASB:

- Track changes from **Agenda Item 2-C**
- Cross references are not updated

INTERNATIONAL STANDARD ON AUDITING 540

AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Introduction

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),[1] ISA 330,[2] ISA 450,[3] 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 accounting estimates, and indicators of possible management bias.

Nature of Accounting Estimates

2. Many financial statement items are susceptible to an inherent lack of precision in their measurement, which is referred to as estimation uncertainty. In the ISAs, such financial statement items are referred to as accounting estimates.

2A. Accounting estimates are subject to estimation uncertainty and vary widely in nature. The measurement objectives and other requirements of the applicable financial reporting framework, and the possible methods, data sources and types of assumptions that could be used to make an accounting estimate, may involve complexity and subjectivity and the need for use of judgment by management. This may give rise to variation in the possible outcomes of the estimation process ~~and affects the degree to which the accounting estimate is subject to estimation uncertainty.~~. (Ref: Para: A1, Appendix 1, Appendix 2)

~~3. When an accounting estimate is being made, its susceptibility to misstatement may increase because of the need to:~~

~~(a) With respect to complexity:~~

~~(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.~~

Commented [A1]: Note: The Task Force suggests deleting paragraph 3 from the introductory section of the standard, but continues to believe that this material is important and will seek to address elsewhere.

1 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

2 ISA 330, *The Auditor's Responses to Assessed Risks*

~~3 ISA 450, *Evaluation of Misstatements Identified during the Audit*~~

4 ISA 500, *Audit Evidence*

~~(ii) Appropriately consider the relevance and reliability of the data used, whether the data is obtained from internal sources or from external information sources.~~

~~(iii) Maintain the integrity of the data used.~~

~~(b) With respect to the use of judgment by management:~~

~~(i) Appropriately take into account available information when selecting methods, assumptions, or data.~~

~~(ii) Mitigate the risk of management bias.~~

~~(c) With respect to estimation uncertainty:~~

~~(i) Take appropriate steps to address estimation uncertainty.~~

~~(ii) Select an appropriate management point estimate or make appropriate related disclosures in the financial statements.~~

Key Concepts of This ISA

3A. This ISA recognizes that there is a spectrum of risk of material misstatement, as well as a spectrum of inherent risk, ~~nature, timing and extent of the auditor's procedures~~ relating to accounting estimates~~are responsive to a spectrum of inherent risk~~. Depending on the nature of a particular accounting estimate, its susceptibility to misstatement may be affected, to a greater or lesser degree, by estimation uncertainty, subjectivity, complexity and other ~~relevant~~ inherent risk factors. The degree to which the susceptibility to misstatement is affected by inherent risk factors reflects the influence those factors have on the likelihood and magnitude of the identified risks of material misstatement. The relative degrees of likelihood and magnitude of a possible misstatement, and their interrelationship, determine where the risk falls along the spectrum of inherent risk~~These risk factors influence the likelihood and magnitude of the risks of material misstatement at the assertion level, and therefore the auditor's consideration of inherent risk~~.

Commented [A2]: Note: derived from paragraph A154 of the working draft of the application material to proposed ISA 315 (Revised)

There will be ongoing discussions with the ISA 315 Task Force about the spectrum of risk concepts, and the wording of paragraphs 3A to 4 is likely to change as these concepts are further refined.

3B. ~~These risk factors also may influence the~~ The ~~design and implementation of the~~ entity's system of internal control relating to accounting estimates is likely to be designed and implemented in a manner that responds to the susceptibility to misstatement. ~~and therefore the~~ Accordingly, the auditor's consideration of control risk affects the assessment of the risks of material misstatement, ~~which in turn~~and ~~may affect~~ the auditor's planned reliance on relevant controls in testing the accounting estimate.

4. This ISA emphasizes ~~the need for~~that the auditor's further audit procedures (including, where appropriate, tests of relevant controls) need to be responsive to the ~~reasons for the~~ assessment of risks of material misstatement at the assertion level, ~~particularly when~~considering ~~such~~ whether the reasons for the assessment given to those risks ~~relate~~ relate to one or more inherent risk factors~~estimation uncertainty, or the effects of complexity or subjectivity in selecting and applying methods, assumptions and data used in making the accounting estimate, and in selecting the amounts and related disclosures to be included in the financial statements~~.

5. The exercise ~~application~~ of professional skepticism by the auditor is particularly important to the auditor's work relating to accounting estimates because of the potential for management bias due to their subjective, potentially complex and uncertain nature.

6. This ISA requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated. For purposes of this ISA, accounting estimates and related disclosures are considered to be reasonable when all the relevant requirements of the applicable financial reporting framework have been applied appropriately. (Ref: Para. A2–A3).

Effective Date

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

Objective

8. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether:
   (a) Accounting estimates, including those ~~that are~~ required to be recognized or disclosed in the financial statements; and
   (b) Related disclosures in the financial statements,

   are reasonable in the context of the applicable financial reporting framework.

Definitions

9. 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. A4)
   (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. A5)
   (c) Estimation uncertainty – The susceptibility of an accounting estimate to an inherent lack of precision in its measurement. (Ref: Para. A6)
   (d) Management bias – A lack of neutrality by management in the preparation of information. (Ref: Para. A7)
   (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 transaction(s), event(s) or condition(s) addressed by an accounting estimate. (Ref: Para A8)

Commented [A3]: Note: slight change to the definition – added commas in response to a comment received about the clarity of the definition.

Requirements

Risk Assessment Procedures and Related Activities

10. When obtaining an understanding of the entity and its environment and the system of internal control, as required by ISA 315 (Revised),[5] in relation to the entity's accounting estimates, the auditor shall

[5] ISA 315 (Revised), paragraphs 3, 5–6, 9, ~~and~~ 11–12, 15-17, and 20-21

obtain an understanding of the following matters, as appropriate in the circumstances~~when applicable~~: (Ref: Para. A10)

The Entity and Its Environment~~[6]~~

(a) The requirements of the applicable financial reporting framework~~ relevant to the entity's accounting estimates~~, including the recognition criteria, measurement bases and the related presentation and disclosure requirements relating to accounting estimates.~~[7]~~ (Ref: Para. A11A)

(b) Regulatory factors~~, if any,~~ relevant to the entity's accounting estimates.~~[8]~~ (Ref: Para. A14)

(c) The entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognized or disclosed in the financial statements.~~[9]~~ (Ref: Para. A18–A23)

(d) The nature of the accounting estimates and related disclosures that the auditor would expect to be included in the entity's financial statements, based on the auditor's understanding of the matters in 10(a)–(c) above.~~[10]~~ (Ref: Para. A16)

Commented [A4]: Note: The Task Force will give further thought to application material to explain that the nature of the accounting estimates and related disclosures that the auditor would expect to be included in the entity's financial statements would be based on the matters in 10(a)-(c), but also may be influenced by the auditor's understanding of the entity and its environment obtained in accordance with ISA 315 (Revised).

The Entity's System of Internal Control Relevant to the Audit~~[11]~~

Control Environment

(e) Whether, and if so, how ~~The extent to which~~ management identifies the need for, and~~has~~ applies~~,d~~ specialized skills or knowledge related to accounting estimates, including with respect to the use of ~~hether~~ a management's expert~~ has been used~~; (Ref: Para. A17A).

(f) The nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates.

Management's Risk Assessment Process~~[12]~~

(g) Whether, and if so, how the risk of management bias is identified and addressed. (Ref: Para. A45)

(h) Whether, and if so, how estimation uncertainty, complexity, subjectivity or other inherent~~relevant~~ risk factors are taken into account by management in making the accounting estimates. (Ref: Para. A46)

~~[6] ISA 315 (Revised), paragraph 11 (a) and (b)~~

~~[7] ISA 315 (Revised), paragraph 11(a)~~

~~[8] ISA 315 (Revised), paragraph 11(a)~~

~~[9] ISA 315 (Revised), paragraphs 9 and 11(b)~~

~~[10] ISA 315 (Revised), paragraph 11(b)~~

~~[11] ISA 315 (Revised), paragraph 12~~

~~[12] ISA 315 (Revised), paragraph 15-17~~

The Information System Relevant to Financial Reporting~~[13]~~

(i) How management makes accounting estimates, including how management: (Ref: Para. A24–A25)

   (i) Identifies transactions~~,~~ and other events and conditions that give rise to the need for, or changes in, accounting estimates to be recognized or disclosed in the financial statements and related disclosures;

   (ii) Identifies the relevant methods, assumptions or sources of data, that are appropriate in the context of the applicable financial reporting framework, including how management:

      a. Selects or designs, and applies, the methods used, including the extent to which they involve modelling; (Ref: Para. A26–A31)

      b. Selects the assumptions to be used, including alternatives considered, and identifies significant assumptions; (Ref: Para. A32–A38); and

      c. Selects the data to be used and identifies significant data; (Ref: Para. A39–A42)

   (iii) Understands the degree of estimation uncertainty associated with accounting estimates, including through considering the range of possible measurement outcomes; and

   (iv) Selects a point estimate and related disclosures for inclusion in the financial statements.

Control Activities Relevant to the Audit~~[14]~~

(j) How management monitors the outcome(s) of previous accounting estimates and responds to the results of that monitoring.

(k) How management monitors 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. A47)

11. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risk 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 judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A61–A66)

12. The auditor shall determine whether specialized skills or knowledge are required to perform the risk assessment procedures, to identify and assess the risks of material misstatement, to design and perform audit procedures to respond to those risks, or to evaluate the audit evidence obtained. (Ref: Para. A67–A70)

~~[13] ISA 315 (Revised), paragraph 1~~

~~[14] ISA 315 (Revised), paragraphs 20-21~~

Identifying and Assessing the Risks of Material Misstatement

13. In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, as required by ISA 315 (Revised),[15] the auditor shall take into account: (Ref: Para. A70A–A75)

    (a) The degree to which the accounting estimate is subject to estimation uncertainty; and (Ref: Para. A75A–A75F)

    (b) The degree to which complexity, subjectivity, or other ~~relevant~~ inherent risk factors affect:

        (i) The selection and application of the methods, assumptions and data in making the accounting estimate; or

        (ii) The selection of management's point estimate ~~of the related amount~~ and related disclosures for inclusion in the financial statements. (Ref: Para. A79–A92A)

13A. The auditor shall determine whether any of the risks of material misstatement identified in accordance with paragraph 13 are, in the auditor's judgment, a significant risk.[16] If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.[17] (Ref: Para. A92B–A92C)

Responses to the Assessed Risks of Material Misstatement

15. As required by ISA 330[18], the auditor's further audit procedures shall be responsive to the assessed ~~reasons given to the~~ risks of material misstatement[19] at the assertion level, considering the reasons for the assessment given to those risks, and shall include one or more of the following approaches:

    (a) Determining whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate ~~those risks~~ (see paragraph 17);

    (b) Testing how management made the accounting estimate (see paragraphs 17A-17F); or

    (c) Developing a point estimate or range based on available audit evidence to evaluate management's point estimate or related disclosures (see paragraphs 18-18C).

    The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.[20] The auditor shall design the further audit procedures to seek sufficient appropriate audit evidence from relevant sources, ~~In designing and performing the further audit procedures, the auditor shall seek to obtain relevant audit evidence from available sources, w~~regardless of whether such audit evidence would be ~~it~~ corroboratives or contradictorys ~~management's assertions~~. (Ref: Para A94–A95)

16. As required by ISA 330,[21] the auditor shall design and perform tests of relevant controls ~~over risks of~~

[15] ISA 315 (Revised), paragraph 25 and 26

[16] ISA 315 (Revised), paragraph 27

[17] ISA 315 (Revised), paragraph 29

[18] ISA 330, *The Auditor's Responses to Assessed Risks*, paragraphs 6-15 and 18

[19] ISA 330, paragraphs 6-7 and 21

[20] ISA 330, paragraph 7(b)

[21] ISA 330, paragraph 8

~~material misstatement at the assertion level relating to an accounting estimate~~ to obtain sufficient appropriate audit evidence as to their operating effectiveness, if:

- The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively ~~intends to rely on those controls~~, or
- Substantive procedures alone cannot provide sufficient appropriate audit evidence about those risks.

The auditor's design and performance of tests of relevant controls shall be responsive to the reasons for the ~~assessed~~ assessment given to the risks of material misstatement. The auditor ~~and~~also shall take into account that the greater the reliance the auditor places on the effectiveness of a control, the more persuasive the audit evidence needs to be.[22] (Ref: Para A98–A100)

16A. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of relevant controls in the current period if the auditor plans to rely on those controls, and tests of details when the approach consists only of substantive procedures.[23]

Determining Whether Events Occurring up to the Date of the Auditor's Report Provide Audit Evidence Regarding Those Risks

17. When the auditor's further audit procedures include obtaining evidence about events occurring up to the date of the auditor's report, the auditor shall evaluate whether the audit evidence:

(a) is sufficient and appropriate ~~, reliable and relevant~~ to address the risks of material misstatement at the assertion level relating to the accounting estimate, and

(b) supports or contradicts relevant assertions relating to~~about~~ the accounting estimate,

taking into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect its relevance to the accounting estimate at the measurement date. (Ref: Para A100A–A100F)

Testing How Management Made the Accounting Estimate

17A. When the auditor's further audit procedures ~~designed in accordance with paragraph 15~~ include testing how management made the accounting estimate, the nature, timing, and extent of ~~the auditor's~~those further audit procedures shall be designed and performed, in accordance with paragraphs 17B -to 17F, to obtain sufficient appropriate audit evidence about:

(a) The selection and application of methods, assumptions and data used by management in making the accounting estimate, and

(b) How management selected the point estimate and disclosures to be included in the financial statements~~,~~

~~in accordance with paragraphs 17B to 17F~~.

[22] ISA 330, paragraph 9

[23] ISA 330, paragraphs 15 and 21

Methods

17B. With respect to the methods used by management to make the accounting estimate, the auditor shall obtain sufficient appropriate audit evidence about:

(a) Whether the method selected is appropriate in the context of the measurement objectives and other requirements of the applicable financial reporting framework, taking into account the nature of the entity; (Ref: Para A101–A107)

(b) If applicable, whether changes from previous periods in the method used are appropriate; (Ref: Para A108)

(c) Whether the calculations are mathematically accurate and appropriately applied;

(d) 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 and are appropriate in the circumstances; (Ref: Para A108A–A108D)

(e) Whether the integrity of significant assumptions and significant data has been maintained in applying the method.

Significant Assumptions

17C. With respect to the significant assumptions selected by management, the auditor shall obtain sufficient appropriate audit evidence about:

(a) Whether the significant assumptions ~~selected for use~~:

(i) Are appropriate in the context of the requirements of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and

(ii) Give rise to indicators of possible management bias; (Ref: Para A108E–A110)

(b) Whether significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities;

(c) 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 A111)

Significant Data

17D. With respect to the significant data used by management ~~in making the accounting estimate~~, the auditor shall obtain sufficient appropriate audit evidence about:

(a) Whether the significant data selected for use:

(i) Is appropriate in the context of the requirements of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate;

(ii) Gives rise to indicators of possible management bias; and

(iii) Is relevant and reliable in the circumstances; (Ref: Para A111A–A111B)

(b) Whether management has appropriately understood or interpreted significant data, including with respect to contractual terms. (Ref: Para A111C)

~~External Information Sources~~

~~17E. If information from an external information source is to be used as audit evidence, the auditor shall consider its relevance and reliability, as required by ISA 500.[24] (Ref: Para A111D)~~

~~Management's Expert~~

~~17F. If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall comply with the requirements in ISA 500.[25]~~

Commented [A5]: Note: Moved under a new subheading after paragraph 18C

Management's Selection of a Point Estimate and Related Disclosures

~~17G~~17E. The auditor shall obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework:

(a) Management has taken appropriate steps to understand and address the estimation uncertainty, and develop a point estimate that meets the measurement objective; and (Ref: Para. A113–A115)

(b) Management's point estimate and the disclosures in the financial statements that describe the estimation uncertainty, are reasonable. (Ref: Para. A116–A125)

~~17H~~17F. When, ~~based on the audit evidence obtained,~~ in the auditor's judgment based on the audit evidence obtained, management has not appropriately understood and addressed the estimation uncertainty, the auditor shall:

(a) Request management to consider alternative assumptions or perform sensitivity analyses, or provide additional disclosures relating to the estimation uncertainty;

Commented [A6]: Note: The Task Force also will give further thought to addressing in the applilcation material the points raised by respondents about independence concerns if the auditor is perceived to be assuming management responsibilities.

(b) Based on management's response to the auditor's request in accordance with paragraph 17F(a), 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 related disclosures in the financial statements that describe the estimation uncertainty; and

(c) When management has not appropriately understood and addressed the estimation uncertainty, evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with ISA 265.[26] ~~.~~ (Ref: Para A126–A127)

~~[24] ISA 500, *Audit Evidence*, paragraph 7~~

~~[25] ISA 500, paragraph 8~~

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

Developing an Auditor's Point Estimate or Range Based on the Available Audit Evidence to Evaluate Management's Point Estimate or Disclosures

18. When the auditor's further audit procedures include developing a point estimate or range to evaluate management's point estimate, the auditor shall take into account the requirements of the applicable financial reporting framework and the auditor's understanding of the process used by management to make the accounting estimate. (Ref: Para A128–A134)

18A. If the auditor's point estimate or range is developed using the auditor's own methods, assumptions or data, the auditor shall:

(a) Obtain sufficient appropriate audit evidence to enable the auditor to evaluate ~~about~~ whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework; and

(b) Consider the relevance and reliability of data obtained from an external information source.[27]

18B. When the auditor uses management's methods, assumptions or data in developing a point estimate or range to evaluate management's point estimate, the auditor shall obtain sufficient appropriate audit evidence in accordance with paragraphs 17B-17F to evaluate whether management's ~~about the~~ methods, assumptions or data are appropriate ~~in accordance with paragraphs 17B-17F~~.

18C. If the auditor ~~concludes that it is appropriate to~~ develops an auditor's range, the auditor shall determine that ~~only include in that range~~ all amounts included in that range~~that~~:

(a) Are supported by sufficient appropriate audit evidence; and

(b) ~~The~~ Have been evaluated by the auditor ~~has evaluated~~ to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.

Other Considerations Relating to Audit Evidence

18D. If information from an external information source is to be used as audit evidence, the auditor shall comply with the relevant requirements in ~~consider its relevance and reliability, as required by~~ ISA 500.[28] (Ref: Para A111D)

18E. If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall comply with the relevant requirements in ISA 500.[29]

Disclosures Related to Accounting Estimates

21. The auditor shall obtain sufficient appropriate audit evidence about whether the disclosures related to an accounting estimate are reasonable in the context of the requirements of the applicable financial reporting framework including: (Ref: Para. A135–A138)

---

[27] ISA 500, paragraph 7

[28] ISA 500, *Audit Evidence*, paragraph 7

[29] ISA 500, paragraph 8

(a) In the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole, or

(b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading.

Indicators of Possible Management Bias

21A. 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 management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A147–A152)

Overall Evaluation Based on Audit Procedures Performed

22. In applying ISA 330[30] to each accounting estimate, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A139–A141)

(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;

(b) 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; and

(c) Sufficient appropriate audit evidence has been obtained.

22A. In making the evaluation required by paragraph 22(c), the auditor shall ~~consider~~ take into account all relevant audit evidence obtained, whether corroborative or contradictory.[31] If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).[32]

23. 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. ISA 450[33] provides guidance on distinguishing misstatements (whether factual, judgmental, or projected) for purposes of the auditor's evaluation of the effect of uncorrected misstatements on the financial statements. (Ref: Para. A2, A142–A146)

Written Representations

25. The auditor shall obtain written representations from management and, when appropriate, those charged with governance that they believe the methods, significant assumptions and significant data used in making the accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting

[30] ISA 330, paragraphs 25 and 26

[31] ISA 500, *Audit Evidence*, paragraph 11

[32] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[33] ISA 450, *Evaluation of Misstatements Identified during the Audit*

framework. The auditor shall also consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used. (Ref: Para. A153–A154)

Communication with Those Charged With Governance or Management

26. In applying ISA 260 (Revised)[34] and ISA 265,[35] 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 regarding accounting estimates, taking into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent~~relevant~~ risk factors in making accounting estimates and related disclosures. (Ref: Para. A155–A157)

Documentation

Commented [A7]: The Task Force will give further consideration to the comments received on documentation, but has added references to relevant paragraphs in ISA 230 in footnote 36.

27. The audit documentation shall include:[36]

    (a) The basis for the auditor's evaluation of the reasonableness of the accounting estimates and related disclosures in the context of the applicable financial reporting framework; and

    (b) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation thereof in forming the auditor's opinion as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. (Ref: Para. A158–A159)

* * *

[34] ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16(a)

[35] ISA 265, ~~*Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*~~ paragraph 9

[36] ISA 230, *Audit Documentation*, paragraphs 8-11, A6 and A10