Obtain an understanding of the entity and its environment, including the entity’s internal control related to the entity’s accounting estimates (Para. 13) (*Note 1)

Identify and assess the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level (Para. 16)
- Separately assess inherent risk and control risk
- Take into account the degree to which the accounting estimate is subject to, or affected by, estimation uncertainty, complexity, subjectivity and other inherent risk factors

Determine whether any of the identified and assessed risks of material misstatement are significant risk (Para. 17)

No significant risk exists

Significant risk exists

Obtain an understanding of the entity’s controls, including control activities, relevant to that risk (Para. 17)

Design and perform tests of controls if: (Para. 19)
- The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively; or
- Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level

Include tests of controls in the current period if the auditor plans to rely on controls (Para. 20)

Include tests of details if the approach consists only of substantive procedures (Para. 20)

Three Testing Approaches (See separate flowchart)

Obtain audit evidence from events occurring up to the date of the auditor’s report (Para. 21)

Test how management made the accounting estimate (Para. 22-27)

Develop an auditor’s point estimate or range (Para. 28-29)

Comply with the relevant requirements on audit evidence in ISA 500 (Para. 30)

- Obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level for disclosures (Para. 31)
- When the auditor’s further audit procedures include testing how management made the accounting estimate or developing an auditor’s point estimate or range, obtain sufficient appropriate audit evidence about the disclosures that describe estimation uncertainty (Para. 26(b) and 29(b))

Evaluate whether there are indicators of possible management bias and, if there are, the implications for the audit (Para. 32)

- The assessments of the risks of material misstatement at the assertion level remain appropriate (Para. 33(a))
- Management’s decisions relating to the recognition, measurement, presentation and disclosure are in accordance with the applicable financial reporting framework (Para. 33(b))
- Sufficient appropriate audit evidence has been obtained. If unable to obtain sufficient appropriate audit evidence, evaluate the implications for the audit or the auditor’s opinion on the financial statements (Para. 33(c) and 34)

Determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated (Para. 35)

Request written representations from management and, when appropriate, those charged with governance (Para. 37)

Communicate with those charged with governance, management, and other relevant parties as appropriate (Para. 38)
Notes

1. Scalability
   - The nature, timing and extent of the risk assessment and further audit procedures will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement. (Para. 3)
     * The auditor’s procedures to obtain the understanding of the entity and its environment shall be performed to the extent necessary to provide an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Para. 13)
     * The auditor’s further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement at the assertion level and that 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. (Para. 18)
   - Guidance that demonstrates how the standard is scalable can be found in paragraphs A20–A22, A63, A67 and A84. (Para. A7)

2. Documentation
   - Paragraph 39 of ISA 540 (Revised) outlines the specific documentation requirements with respect to auditing accounting estimates and related disclosures. Refer to ISA 230, Audit Documentation, with respect to the auditor’s responsibility to prepare audit documentation for an audit of financial statements, and its Appendix, which lists other ISAs that contain specific documentation requirements and guidance.