ISA 540 (Revised) – Three Testing Approaches



This flowchart provides an overview of the key requirements relating to the three testing approaches, including their linkages.

Include one or more of the following testing approaches in designing and performing further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (Para. 18) (*Note) **Test How Management Made the Accounting Estimate Develop an Auditor's** Obtain Audit Evidence **Point Estimate** from Events Occurring Obtain sufficient appropriate audit evidence regarding risks of material misstatement relating or Range up to the Date of to: (Para. 22) the Auditor's Report Evaluate whether The selection and application of the methods, How management selected the point estimate significant assumptions and the data; and and developed related disclosures about sufficient and (Para. 22(a)) estimation uncertainty (Para. 22(b)) appropriate to address risks of material misstatement relating Linkage to the accounting estimates Significant Methods (Para. 23) Assumptions (Para, 24) Take into account steps to: (Para. 26)
Understand that changes in circumstances and other relevant Address whether methods, significant assumptions and data are appropriate in the context of the applicable financial uncertainty; and Address estimation uncertainty by the event and reporiting framework (Para. 23(a), 24(a) and 25(a)) the measurement date may affect the relevance of such selecting an appropriate point estimate and by developing related disclosures audit evidence in (Para. 28) the context of the applicable Address whether judgments made in selecting methods, significant assumptions and data give rise to indicators of possible management bias (Para. 23(b), 24(b) and 25(b)) financial reporting framework (Para. 21) Address whether Address whether Management has not calculations are significant (Para. 29) applied in taken appropriate steps assumptions accordance are consistent inkage the circumstances (Para. 25(c)) with method with each other Request management to perform additional and are accurate (Para. 24(c)) (Para. 23(c)) _ procedures to understand or to address estimation uncertainty by reconsidering the selection of management's point estimate or considering providing appropriate audit Address whether, when applicable, Address whether, Address whether the data has been appropriately when complex management has the intent to carry modelling is involved judgments have out specific considering providing additional disclosures relating to the estimation uncertainty (Para. 27(a)) been applied courses of action consistently and has the ability to do so (Para. 24(d)) and model design meets/adjustments evidence regarding the assessed risks to output are consistent with measurement objective response(s) in accordance with paragraph 26 (Para. 27(a)) (Para. 23(d)) Management has taken appropriate steps Address whether the integrity ----of significant Management's Management's response response does not assumptions sufficiently addresses and data are sufficiently address estimation uncertainty estimation uncertainty maintained in applying the method (Para. 23(e)) Evaluate whether a deficiency in internal control exists develop an auditor's point estimate or range in accordance with paragraphs 28-29 (Para. 27(b)) Linkage

(Para. 27(c))

* Note: Scalability

- The nature, timing and extent of the auditor's further audit procedures are affected by, for example: (Para. A84)
 The assessed risks of material misstatement, which affect the persuasiveness of the audit evidence needed and influence the approach the auditor selects to audit an accounting estimate
- The reasons for the assessed risks of material misstatement