

Key principles	
ISA 540 - AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES	
ISA 540.6	<p>Ensure that the auditor obtained sufficient appropriate audit evidence about whether:</p> <p>a) accounting estimates in the financial statements, whether recognized or disclosed, are reasonable; and</p> <p>b) related disclosures in the financial statements are adequate, in the context of the applicable financial reporting framework.</p>

Key conclusions	
On completion of procedures in this area, assess in conclusion whether the inspection team:	
1	Is satisfied that the auditor obtained sufficient appropriate audit evidence to conclude adequately on the reasonableness of the accounting estimate
2	Is satisfied that the auditor obtained sufficient appropriate audit evidence to conclude that disclosures related to accounting estimates are adequate

Step	Test objective	Reference	Inspection procedures
Risk assessment procedures			
1.	Evaluate that the auditor adequately identified and assessed the risks of material misstatement arising from accounting estimates	<p>ISA 540.8, A12-A44 ISA 540.10, A45-A46 ISA 540.11, A47-A51 ISA 540.9</p>	<p>1. Review whether the auditor obtained an adequate understanding of management’s process for determining the accounting estimates.</p> <p>2. Review whether the auditor adequately identified and assessed the risks of material misstatement arising from accounting estimates, including determining whether the identified risk is considered significant.</p> <p>3. Where a significant risk was identified in this area:</p> <ul style="list-style-type: none"> • review how the audit team evaluated the design and implementation of controls for the significant risk identified; and • review whether the audit team’s risk assessment and their identification and response to significant risks appear appropriate. <p>4. Evaluate that the auditor adequately performed the back-testing of the prior year accounting estimates.</p>
Responses to the assessed risks of material misstatement			
2.	Evaluate that the auditor designed and implemented appropriate responses to the risks of material misstatement arising from accounting estimates	<p>ISA 540.13, A.59-95 ISA 540.12-13 & 21, A.52-95 & A124-125</p>	<p>1. Taking into account the nature of the accounting estimate, evaluate whether the auditor designed appropriate procedures to address the risk of material misstatements for accounting estimates.</p> <p>2. Review whether the chosen audit procedure(s) performed by the auditor has (or have) been adequately implemented, in order to obtain sufficient and appropriate audit evidence to support the reasonableness of the accounting estimate recognized or disclosed in the financial statements , especially :</p> <ul style="list-style-type: none"> i. when management utilizes information from third-party data sources, consider whether the auditor adequately evaluated the third-party data source; ii. when management’s estimates are based on a model, review whether the auditor adequately considered the appropriateness of the model used by management, the reasonableness of the assumptions and data used and the mathematical accuracy; iii. when management engages an external expert consider whether the auditor adequately evaluated the work performed by the expert and the conclusions reached;

Step	Test objective	Reference	Inspection procedures
		ISA 540.15-17, A.102-115 ISA 540.18, A116-A119 ISA 540.14, A.96-101	<p>iv. when the auditor develops his own estimate, review whether the auditor used (a) appropriate techniques to construct the model if applicable and (b) appropriate assumptions.</p> <p>3. Where a significant risk was identified in the estimates, review whether the auditor :</p> <ul style="list-style-type: none"> • has performed further substantive procedures to respond to the estimation uncertainty and the effect such uncertainty can have on the appropriateness of the estimates in the financial statements ; • has obtained sufficient and appropriate audit evidence about the recognition and measurement criteria in accordance with the requirements of the applicable financial reporting framework. <p>4. Review whether the auditor, based on the audit evidence obtained, has adequately evaluated whether the accounting estimates in the financial statements are either reasonable in the context of the applicable reporting framework, or are misstated.</p> <p>5. Review whether the auditor, in his documentation, assessed the need to involve internal or external experts having specialized skills or knowledge in order to obtain audit evidence.</p>
Audit report and disclosures related to accounting estimates			
3.	Evaluate that disclosures related to accounting estimates made in the financial statements, and where relevant in the audit report, are adequate	ISA 540.19-20, A120-123 Regulation 537/2014 ¹ Article 10.2 & 11.2 ISA 540.22, A126-127	<p>1. Evaluate that the auditor adequately assessed whether disclosures in the financial statements related to accounting estimates are in accordance with the applicable financial reporting framework.</p> <p>2. Evaluate that the auditor adequately determined whether estimates giving rise to significant risks have been adequately addressed in the audit report and in the additional report to the audit committee and that the disclosures are adequate.</p> <p>3. Evaluate that the auditor obtained written representations from management and where appropriate from TCWG whether they believe significant assumptions used in making accounting estimates are reasonable.</p>

¹ Effective from 16 June 2016.

Key principles	
ISA 600 SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)	
ISA 600.8	To assess whether, as auditor of the group financial statements, the group auditor obtains sufficient appropriate audit evidence to express an opinion on whether the group consolidated financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key conclusions	
On completion of procedures in this area, assess in conclusion whether the inspection team:	
1	Is satisfied that the GEP has adequately taken responsibility for the direction, supervision and performance of the group audit engagement ² and has been adequately involved, to the extent necessary, in the work performed by the component auditors
2	Is satisfied that there have been appropriate communications between the GET and the component auditors about the scope and timing of the work to be undertaken and on findings arising
3	Concurs with the GET that it obtained sufficient appropriate audit evidence from (i) the audit procedures performed on the consolidation process and (ii) the work performed on the financial information of the components

Definition and List of Acronyms	
Aggregation risk	The aggregation risk represents the risk that the GET, depending on the structure of the group (e.g. group composed mainly by multiple non-significant components), would not be in a position to collect sufficient appropriate audit evidence on which to base the group audit opinion from: (a) the work performed on the financial information of significant components; (b) the work performed on group-wide controls and the consolidation process; and (c) the analytical procedures performed at group level.
GET	Group Engagement Team (as defined in ISA 600.9.i)
GEP	Group Engagement Partner (as defined in ISA 600.9.h)
GFS	Group Financial Statements
TCWG	Those Charged With Governance (including the audit committee)

² For group audits headed by a “letterbox company” refer to : IAASB Staff Audit Practice Alert : Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed

Step	Test objective	Reference	Inspection procedures
GEP/GET ownership of the audit			
1	Evaluate whether the conclusions reached during the acceptance and continuance process are appropriate.	ISA 600.12-13 & A12, A15, A16 ISA 600.11 Regulation Articles 10.2 & 11.2 Regulation Articles 4-6, & 17 ISA 600.14, ISA 210	<ol style="list-style-type: none"> 1. Review whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components. 2. Review the audit report, and if applicable the additional report to the audit committee, to ensure that: <ol style="list-style-type: none"> i. the audit report is the responsibility of the GEP, making no reference to the component auditors (unless required by law or regulation); ii. the audit report adequately describes and address the most significant assessed risks of material misstatement, in accordance with the Regulation 537/2014 ; and iii. the additional report to the audit committee adequately describes and address the group audit specificities. 3. Evaluate the adequacy of the responses given by the GEP to the principles set out in EU regulation (e.g. fees, non-audit services, declaration of independence, rotation). 4. Review the appropriateness of the terms of the group audit engagement and the fee allocation within the group.
Planning / Scoping of the group audit and risk assessment procedures			
2	Ensure that the group audit plan & strategy is adequately designed and updated when necessary, in order to respond in an appropriate manner to the risks of material misstatements relevant to the group audit.	ISA 600.21-23 ISA 600.17-18, 26-27, 29 ISA 600.24, 26-27 & 29 ISA 600.24, 30-31 and A55 ISA 600.15, 16 Directive Article 29.1f)	<ol style="list-style-type: none"> 1. Evaluate whether the GET has appropriately determined (or validated) and allocated materiality for the purpose of the group audit: 2. Evaluate whether the GET appropriately: <ul style="list-style-type: none"> o determined the significant components and significant account balances; and o assessed the risks of material misstatement of the GFS, whether due to fraud or error. 3. Evaluate whether the nature and extent of the audit procedures planned for the significant components is appropriate and responsive to the risks and that the aggregation risk is adequately mitigated. 4. Evaluate whether, related to significant components, the GET was adequately involved in the component auditor’s risk assessment: <ul style="list-style-type: none"> o to identify significant risks of material misstatement of the GFS; and o to evaluate the appropriateness of the further audit procedures to be performed on significant risks. 5. Evaluate whether the GET has established an appropriate overall group audit strategy and a group audit plan in accordance with ISA 300. Consider the timeliness of the review by the GEP and by the EQCR of the group audit plan and strategy. 6. Review the adequacy of the group audit plan & strategy in comparison with the audit fee allocation within the group.
Work performed by component auditors			
3	Ensure the GET obtained sufficient and appropriate audit evidence from the work performed for group purposes	ISA 600.41-45 ISA 600.38-39 ISA 600.42-43 ISA 600.19-20 ISA 600.40	<ol style="list-style-type: none"> 1. Review whether the GET performed sufficient and appropriate audit procedures in order to evaluate the component auditors’ work and conclusions reached and ensure that the GET : <ul style="list-style-type: none"> o discussed significant matters arising from that evaluation with the adequate persons; and o determined whether it is necessary to review other relevant part of the component auditor’s audit documentation. 2. For components for which the GET, in accordance with the plan or based on issues raised during the audit process, undertook a review of the underlying audit works and/or visited the component auditor to review the work, review whether the GET adequately reviewed and challenged the component auditor’s work. 3. Review the GET's understanding of the component auditors, including their professional competence, and whether they understand, and will comply with, relevant ethical/independence requirements. 4. Review the adequacy and timeliness of the group audit instructions sent to component auditors.

Step	Test objective	Reference	Inspection procedures
		ISA 600.42-43	5. Evaluate whether it would be effective for the inspection team / the inspector to select a component audit and review the underlying audit work.
Consolidation process and group audit procedures			
4	Ensure that the GET obtained sufficient appropriate audit evidence from the work performed on the consolidation process.	ISA 600.33 ISA 600.36 ISA 600.34 A56 ISA 600.44 A62 ISA 600.25, ISA 600.32 ISA 600.28-29 A50-A53 ISA 600.38, 39 ISA 600.35, 37	<ol style="list-style-type: none"> 1. Review whether the GET has ensured that all components have been included in the GFS and has agreed financial information identified in the component auditor's communication to the consolidation. 2. Evaluate whether the GET collected appropriate audit evidence in relation to the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. 3. Review whether the GET obtained sufficient and appropriate audit evidence from the audit procedures performed on the consolidation process and the work performed by the GET and the component auditors on the financial information of the components, on which to base the group audit opinion. 4. Where the GET's work on the consolidation process or the financial information of the components is based on an expectation that group-wide controls are effective or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, review whether the tests of operating effectiveness performed on those controls (including ITGCs applicable to the consolidation system(s)) are appropriate. 5. Review whether the GET performed sufficient analytical procedures at the group level for non-significant components. If the aggregation risk remained too high (i.e. circumstances of ISA 600.29 are met), ensure that the planned audit/review/specific procedures on the selected non-significant components have been adequately completed by the GET or the component auditors. 6. Evaluate the adequacy of the subsequent events audit work in relation to the GFS. 7. If the financial information of a component has not applied the same accounting policies as the GFS or if the financial information of a component has a financial reporting period-end that differs from that of the group, evaluate whether the GET has sufficiently reviewed the adjustments made for the purposes of preparing and presenting the GFS.
Communication with group management and TCWG of the group			
5	Assess the quality of communications made to group management and TCWG. -	ISA 600.49 ISA 600.46-47 Regulation Article 6.2 ISA 600.48	<ol style="list-style-type: none"> 1. Review the quality and timeliness of the required GET communications with TCWG of the group relating to group audit 2. Evaluate whether the GET communications include the following : <ol style="list-style-type: none"> i. the confirmation in writing to the audit committee that the GEP and GET are independent from the audited entity. ii. details of any irregularities (including fraud) to the appropriate level of group management and to TCWG on a timely basis. iii. significant deficiencies in internal controls to the group management and to TCWG. 3. If a component auditor is required to express an audit opinion on the financial statements of a component, evaluate whether the GET requested group management to inform component management of any matter of which the GET becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware.