

*Auditing accounting  
estimates –  
depreciation and  
fixed assets*

**Matt Howells**

# *Contents*

Definitions

Identifying accounting estimates  
within fixed assets and depreciation

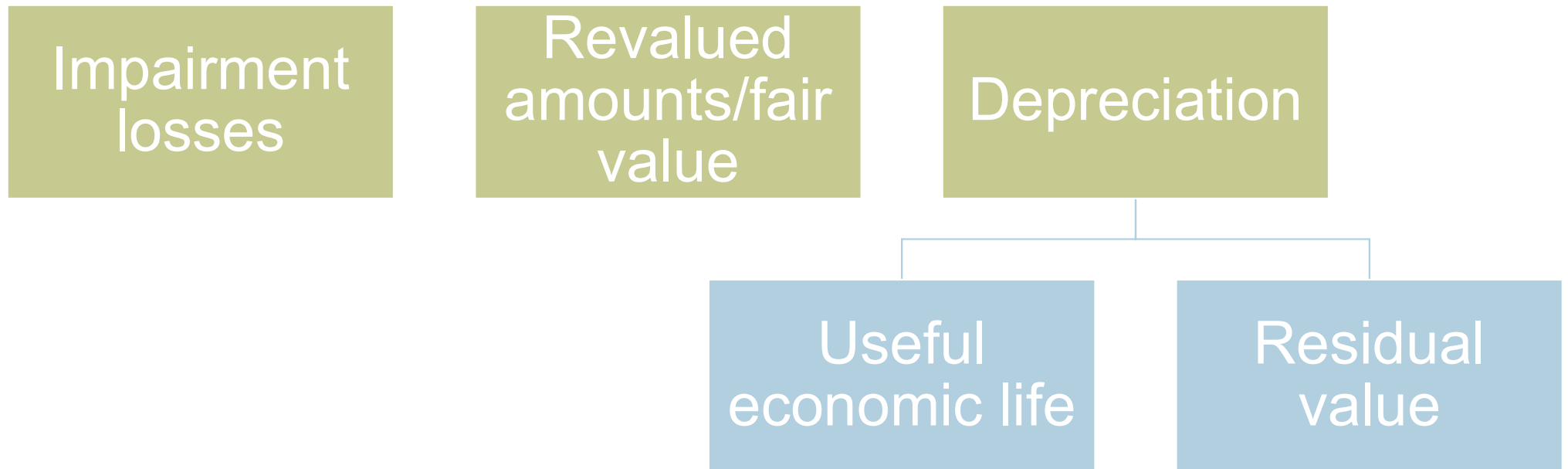
ISA requirements

# *Definitions*

Accounting estimate: A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty (ISA 540 para 12(a))

Estimation uncertainty: Susceptibility to an inherent lack of precision in measurement (ISA 540 para 12(c))

# *Identifying accounting estimates within fixed assets and depreciation*



# *ISA 540 (Revised) requirements*

## Risk assessment

- Understand estimates and how management makes them
- Retrospective review
- Any specialist skills required?
- Assess inherent risk on spectrum of magnitude and likelihood
- Estimation uncertainty, complexity, subjectivity
- For significant risks, understand relevant controls

## *ISA 540 (Revised) requirements*

Risk  
responses  
(audit  
procedures)

- Consider post-balance sheet information; and/or
- Test how management made the estimate; and/or
- Come up with our own estimate

## *ISA 540 (Revised) requirements*

Testing how  
management  
made the  
estimate

- Is the method appropriate under accounting standards?
- Are complex models robust/sound?
- Are significant assumptions and data correctly incorporated?
- Are significant assumptions consistent?
- Is management able and does management intend to carry out plans?
- Relevance, reliability and interpretation of data
- How has management addressed estimation uncertainty?

NB

- Many similar considerations if we develop our own estimate

## *ISA 540 (Revised) requirements*

### Further audit procedures

- Disclosures: specifically required to consider whether disclosures beyond mandatory ones are required to explain uncertainty
- Evidence of management bias
- “Stand back”



