When testing how management makes an accounting estimate, with respect to significant assumptions, the auditor's further audit procedures need to address:

(a) Whether the significant assumptions are appropriate and, if applicable, changes from the prior periods are appropriate. This is illustrated in the following example of the procedures performed by the auditor for the significant assumption of revenue forecasts.

Illustrative examples of audit procedures over management's revenue forecasts in an entity's discounted cash flow model:

Significant assumption	***Procedures performed***
Revenue forecasts	● There may be a higher level of subjectivity around this assumption and increased susceptibility to management bias. The auditor should focus on management's rationale for selecting the revenue forecasts used in the model. This may include challenging management as to why the selected growth rate was more appropriate than available alternatives and considering whether the selection of the assumption was consistent with (or whether it should not have been consistent with) previous periods, publicly available market data from reliable sources and similar assumptions used in other estimates. The auditor may perform sensitivity analysis around the forecasts used. As new accounting standards such as AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, continue to require estimates that incorporate forward-looking information, and as the COVID-19 environment is seeing varied future-looking assumptions, companies will need to select assumptions from a range of potential assumptions in developing their estimates. Refer below for indicators of management bias. ● The discount rate applied to future cash flows is often a significant assumption. Given the uncertainty inherent in cash flows a risk premium might be added to the discount rate to reflect such uncertainties. Where this is the case the auditor needs to consider the impact of this on other assumptions. ● Analyse actual historical movements in revenue and evaluate whether these remain a good indicator of likely future revenues, given any significant market, business or economic impacts. The relevance of historical trends is expected to be dependent on the entity's industry; for some industries, for example tourism, historical movement may not be a good indicator of the short-term future. ASA 540 Revised indicates that where changes to significant assumptions are not based on new circumstances or information, there may be cause for concern about the appropriateness of the change. In the COVID-19 environment, auditors may expect to see significant changes from the prior period assumptions, if changes are expected, but are not seen, the auditor may need to hold further discussions with management and if necessary, challenge management about whether the use of the prior period assumptions remain appropriate. ● Evaluate whether the entity's forecasts are in line with current market predictions using evidence from multiple sources taking into account the reliability and reputation of the source of the data. ASA 540 Revised requires that the auditor designs and performs 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. In the present environment, we are seeing economists' views on outcomes vary considerably and with

	so many differing views, it is important that the auditor obtains audit evidence in an unbiased manner that may involve obtaining evidence from multiple sources.

(b) Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias.

Indicators of Management bias
Auditors will need to focus on whether management's assumptions selections indicate management bias. ASA 540 Revised has a strong focus on management bias and lists indicators of possible management bias and suggests that the auditor should have discussions with management about the appropriateness of assumptions used. The auditor should also consider if sufficient appropriate audit evidence has been obtained to support the estimate in light of the identified biases.

An example of an indicator of management bias for a particular accounting estimate may be when management has developed an appropriate range for several different assumptions, using information from multiple sources (e.g. industry specialists, government economists and bank economists), and in each case the assumption used was from the end of the range that resulted in the most favourable measurement outcome. In the current environment auditors may need to pay particular attention to anchoring, availability and confirmation biases that may impede the exercise of professional scepticism, and therefore the reasonableness of the professional judgments made by the engagement team.

(c) Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, based on the auditor's knowledge obtained in the audit. For example, future cash flow assumptions used in determining whether an impairment to goodwill exists are likely to be similar assumptions used to support a going concern assessment and recoverability of deferred tax assets.

(d) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. This includes whether management's plans appropriately consider the length of time the entity will be impacted by the COVID-19 situation, encompassing both the immediate impact and extent of the recovery period. For example, terms of significant contracts may not allow management to carry out its intended plans (for example where significant customer contracts contain cancellation rights that might be triggered).