

Post-Implementation Review of ISA 540 (Revised)¹ – Issues Paper

Objective of the IAASB Discussion

The objective of this agenda item is to:

- (a) Provide an overview of the feedback received from the [online survey](#) for the post-implementation review (PIR) of ISA 540 (Revised); and
- (b) Obtain the Board's views about the proposed direction for the way forward that will enable the Project Team to develop recommendations for the IAASB's consideration in Q4 2026.

Approach to the Board Discussion

The Project Team will:

- Present the overview of the key themes identified in analyzing the responses to the survey as described in **Parts A–E** of this paper; and
- Walk through the possible actions suggested by the respondents, and the Project Team's proposed direction for the way forward, for the IAASB's consideration as outlined in **Part F** of this paper.

Introduction

Background

1. In December 2025, the Board approved an online survey for the PIR of ISA 540 (Revised) for public consultation. The survey sought respondents' feedback to determine:
 - (a) Whether ISA 540 (Revised) has achieved its intended purpose by identifying:
 - (i) Improvements or benefits from applying the revised standard; and
 - (ii) Practical challenges or questions regarding its application, including whether it is being consistently understood and implemented; and
 - (b) What actions, if any, are needed by the IAASB to address identified matters.

The Board launched the survey in February 2026 for a period of approximately 120 days that closed on June 15, 2026.

Structure of the Survey

2. The survey was developed with a broad range of stakeholders in mind and the survey questions were tailored to reflect the perspectives and experiences of different stakeholder groups, ensuring that each respondent was asked questions relevant to their role and interaction with ISA 540 (Revised) or its outputs.

¹ International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

3. The survey included a series of questions to gather input on various matters regarding ISA 540 (Revised). The survey included conditional questions targeted for various stakeholder groups (i.e., respondents were prompted to provide their response only on the questions applicable to the stakeholder group they represent).
4. The survey comprised the following sections, targeting different stakeholder groups:
 - (a) Section I—Background and Purpose (all stakeholders).
 - (b) Section II—About the Respondent (all stakeholders).
 - (c) Section III—Overall Questions (all stakeholders): Overall views about whether ISA 540 (Revised) has achieved its intended purpose and the objectives of the IAASB in developing the revised standard. In addition, stakeholders were asked about the usefulness of the non-authoritative guidance and support tools that were developed.
 - (d) Section IV—Perceived Benefits from ISA 540 (Revised) (all stakeholders): Feedback about perceived benefits or improvements resulting from the implementation of the revised standard, tailored based on the stakeholders.
 - (e) Section V—Potential Issues or Challenges Related to ISA 540 (Revised) (for Accounting Firms, Jurisdictional and Other Standard Setters (JSS), Professional Accountancy Organizations (PAOs), regulators and audit and assurance oversight bodies, academia and others): Feedback on specific questions related to potential issues or challenges, the root causes of such issues or challenges, and suggestions for possible actions for the IAASB to address the issues or challenges.

OR

 - (f) Section V—Impact of ISA 540 (Revised) (tailored either for (i) preparers or issuers of financial statements, including public sector organizations and those charged with governance (TCWG) or (ii) users of financial statements): Feedback on the potential impacts of ISA 540 (Revised), and suggestions for possible actions for the IAASB to address the issues or challenges.

Materials Presented

5. This paper sets out the following:
 - **Part A:** Summary of the broad range of stakeholders that submitted responses to the survey, and an explanation for the presentation of the respondents' comments and the Project Team's approach to the analysis of responses.
 - **Part B:** Analysis of respondents' feedback on the overall questions (Section III of the survey).
 - **Part C:** Analysis of respondents' feedback on the perceived benefits from ISA 540 (Revised) (Section IV of the survey).
 - **Part D:** Analysis of feedback provided by accounting firms, JSS, PAOs, regulators and audit and assurance oversight bodies, and others on the potential issues or challenges related to ISA 540 (Revised) The feedback is summarized by significant themes, as follows:

Section	Theme
I	Scalability and Proportionality
II	Risk Assessment Procedures
III	Responses to the Assessed Risks of Material Misstatement and Overall Evaluation
IV	Other Matters

- **Part E:** Analysis of feedback provided by preparers or issuers of financial statements, including TCWG, and users of financial statements on the impacts related to ISA 540 (Revised) (Section V of the survey, for the specified stakeholders).
- **Part F:** Analysis of respondents' feedback on the possible actions to best address the issues or challenges identified and the Project Team's initial views about possible actions for the IAASB's consideration.
- **Part G:** Way forward.

6. This agenda item includes the following appendices and other agenda items:

Appendix 1	Project Team Members and Activities
Appendix 2	List of Respondents to the Public Consultation Survey
Appendix 3	Respondents' Comments to the Questions in the Online Survey and the Related Agenda Items Where the Summary and Detailed Comments are Presented
Appendix 4	Highlights from the SAC session on PIR of ISA 540 (Revised)
Agenda Item 8-A.1 to 8-A.10	Excel reports that include responses to the rating questions in the survey
Agenda Item 8-B.1 to 8-B.5	Word NVivo reports that include narrative comments from respondents

Liaison with PIR of ISA 315 (Revised 2019)²

7. In July 2026, the Project Team and the project team for the PIR of ISA 315 (Revised 2019) held a virtual meeting to share preliminary observations from the ISA 540 (Revised) survey responses, noting that respondents provided various comments on the interactions between ISA 315 (Revised 2019) and ISA 540 (Revised). The teams also coordinated the approach to future targeted outreach activities, with the objective of ensuring a coherent and consistent approach to engaging with key stakeholder groups while minimizing duplication of effort.

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Liaison with the International Ethics Standards Board for Accountants (IESBA)

8. In July 2026, the Project Team, the project team for the PIR of ISA 315 (Revised 2019) and IESBA Staff assigned to PIRs (for non-compliance with laws and regulations (NOCLAR) and the restructured Code) held two virtual meetings to coordinate our approaches to analyzing feedback received through our respective public consultation surveys. The discussion focused on promoting consistency and sharing methodologies to analyzing feedback. The teams also exchanged initial views on the development of a broader PIR framework, including the objective and purpose such a framework.

Other Outreach Activities

9. The Project Team held a dedicated session at the most recent [Stakeholder Advisory Council \(SAC\)](#) meeting to obtain a deeper understanding of the impact of ISA 540 (Revised) on entities and the external reporting ecosystem, focusing on the SAC members' insights and experiences. Taking into account the different stakeholder constituencies represented by SAC members, the session focused on perspectives similar to those addressed in Section IV (perceived benefits) and Section V (impacts - tailored for preparers or issuers and users of financial statements) of the survey. The perspectives shared by SAC members (see **Appendix 4**) will help inform the project's ongoing analysis and the identification of matters that may warrant further consideration.

Part A: Overview of the Responses to the Survey

Overview of Respondents

10. 96 responses were received from a broad range of stakeholders from all geographical regions as summarized in the table below (see **Appendix 2** for a list of respondents to the public consultation). All survey submissions have been posted on the [IAASB website](#).

Stakeholder Type	No.	Region	No.
Monitoring Group (MG) ³	2	Global	18
Users of Financial Statements	6	Asia Pacific	13
Preparers or Issuers of Financial Statements and TCWG	19	Europe	14
Regulators and Audit and Assurance Oversight Bodies	9	Middle East	31
JSS	10	Africa	9
Accounting Firms	24	North America	5
PAOs	22	South America	6
Others	4	Total	96
Total	96		

³ The MG comprises the Basel Committee on Banking Supervision (BCBS), the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. Two MG members (IFIAR and IOSCO) submitted responses to the PIR public consultation.

11. 93 respondents utilized the online survey tool to provide feedback, while three respondents provided written responses only (both MG members and a regulator and audit and assurance oversight body).
12. While responses were received from a diverse representation of stakeholder constituencies and geographical regions, the responses received from preparers or issuers of financial statements and TCWG were highly skewed to a single region: 18 of the 19 responses from this stakeholder group were from entities or individuals from the Middle East. As a result, the Project Team concluded that additional outreach activities were needed to obtain broader input from this stakeholder group across other jurisdictions and to enhance the balance and representativeness of the feedback received (see paragraph 14 below).
13. The Project Team also noted the feedback received from SAC members (see paragraph 9) and that some respondents undertook further outreach in their jurisdictions to inform their responses to the IAASB survey, including targeted meetings, roundtables, member surveys, gathering inputs from network firms, and other forms of outreach. As part of this outreach undertaken by respondents, they engaged with stakeholders from different constituencies, including preparers or issuers and users of financial statements.
14. To further inform the final recommendations to be discussed with the IAASB in December 2026, the Project Team intends to undertake targeted outreach in Q4 2026 with the following stakeholder representative groups:
 - (a) To augment survey responses received from preparers or issuers and users of financial statements: the Accounting and Auditing Expert Group of the BCBS, the Accounting and Auditing Working Group of the IAIS, the International Federation of Accountants (IFAC) Professional Accountants in Business Advisory Group, the International Accounting Standards Board Global Preparers Forum and the IAASB and IESBA User Advisory Group;
 - (b) To explore certain nuances in feedback received from other stakeholder groups: IAASB JSS Liaison Group, IFAC Small and Medium Practices Advisory Group and Forum of Firms.

Presentation of Comments

15. Excel has been used to assist with the analysis of the questions in the survey that asked for a response on a scale, e.g., 0 – no response to 4 – strongly agree, while NVivo software has been used to assist with the analysis of the narrative responses. **Appendix 3** provides a summary of the Excel and NVivo reports relevant for each topic analyzed and the related Part in this Agenda Item where the summary is presented.

Approach to Analysis of Responses

16. When analyzing the survey responses, the Project Team noted that the responses to the questions were generally consistent across the stakeholder constituencies. Therefore, the Project Team did not include a breakdown of the responses by stakeholder constituencies in the analysis of responses in this paper. Instead, these breakdowns are included in the respective Excel spreadsheet and Word reports in **Agenda Items 8-A.1–8-A.10** and **8-B.1–8-B.5**. Any significant differences noted for individual stakeholder groups have been explained in **Parts B–E** below.
17. In addition, the Project Team determined that the most effective way to analyze and present the comments received was by the themes that emerged from the analysis of the detailed comments.

Parts B to E: Matters for IAASB Consideration

Matters for IAASB Consideration:

1. The Board is asked whether they agree with the Project Team's analysis and summary of respondents' feedback to the survey as presented in **Parts B–E** (see also **Appendix 3** for the related Excel and NVivo Reports included in **Agenda Items 8-A and 8-B** containing the detailed analyses). In particular, the Board is asked for their views on:
 - (a) The scalability and proportionality challenges (see **Section I of Part D**);
 - (b) The interaction between ISA 315 (Revised 2019) and ISA 540 (Revised) (see **Section II of Part D**);
 - (c) Responses to assessed risks of material misstatement, including developing an auditor's point estimate or range (**Section III of Part D**); and
 - (d) Impacts of ISA 540 (Revised) from the perspective of preparers or issuers of financial statements, including TCWG, and users of financial statements (see **Part E**).
2. Are there any other significant points raised by respondents that have not been included in the summary in **Parts B–E** or any other matters that the Project Team should consider in finalizing the PIR after the September 2026 meeting?

The Project Team will present and pause after each Part to obtain the Board's input.

Part B: Overall Comments

Highlights from Responses

- Respondents highlighted that the **revised standard has strengthened the audit of accounting estimates** by promoting a more robust risk-based approach, enhancing the auditor's exercise of professional skepticism, and addressing estimation uncertainty through a greater focus on management's selection of methods, assumptions, and data.
- Although respondents agreed that the **revised standard has largely achieved its intended objectives**, some challenges remain.
- Respondents generally considered the **non-authoritative guidance and support tools to be useful and effective** in supporting implementation.

18. Section III of the survey asked respondents for their overall views about whether ISA 540 (Revised) has achieved its intended purpose and the objectives of the IAASB in developing the revised standard. Respondents were also asked about the usefulness of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised).

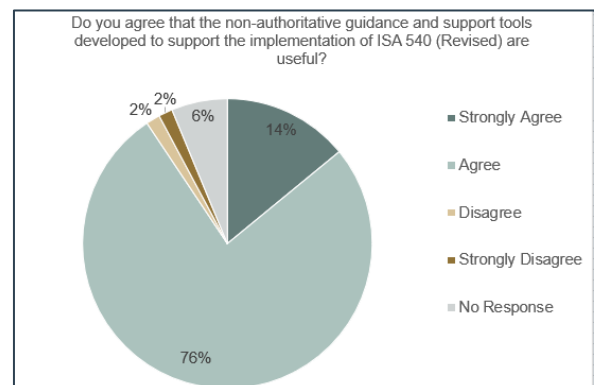
Overall Views

19. Respondents across stakeholder groups generally agreed that ISA 540 (Revised) has achieved its intended purpose and the IAASB's objectives. Respondents highlighted the following overall points:

- (a) The revised standard has strengthened the audit of accounting estimates by promoting a more robust risk-based approach, including a greater focus on the methods, assumptions, and data used in developing accounting estimates.
 - (b) The introduction of inherent risk factors and objective-based requirements have contributed to more targeted audit responses, improved consistency in the application of professional judgment, and enhanced audit documentation.
 - (c) The revised standard has strengthened the emphasis on professional skepticism and generally has led to a more robust challenge of management's accounting estimates.
 - (d) Several respondents observed that the revised requirements have facilitated more meaningful discussions between auditors, management, and TCWG regarding key assumptions, estimation uncertainty, and related disclosures, thereby supporting improvements in financial reporting quality and transparency (see **Part C** for more information on benefits).
20. While respondents generally supported the revised standard, they also identified a number of implementation issues or challenges. These challenges were primarily viewed as relating to the practical application of the requirements rather than deficiencies in the standard itself. The most frequently raised concern was the scalability and proportionality of applying ISA 540 (Revised), particularly for less complex entities and accounting estimates involving limited judgment or a low level of estimation uncertainty. See **Part D** for more information on the issues or challenges noted by respondents.
21. Given the overall positive assessment of ISA 540 (Revised), respondents did not support significant changes to the requirements at this stage. Instead, respondents generally encouraged the IAASB to continue supporting implementation through non-authoritative guidance to illustrate the application of the requirements in different circumstances, including less complex environments. Respondents also highlighted the importance of considering the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), as well as the potential implications of emerging technologies on the audit of accounting estimates. See **Part F** for more information on suggestions provided by respondents.

Non-Authoritative Guidance and Support Tools

22. 68% of respondents indicated that they were aware of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised). As shown in the accompanying chart, 90% of those respondents agreed that the non-authoritative guidance and support tools were useful in supporting implementation.



23. Respondents highlighted that materials such as illustrative examples, flowcharts, diagrams, and presentations have helped clarify the application of key requirements, including risk assessment, the spectrum of inherent risk, estimation uncertainty, management bias, the relationship between risk assessment and audit responses, and the linkages with other ISAs.

24. In particular, respondents noted that the illustrative examples have provided practical insights into how the requirements may be applied in different circumstances and have supported training, methodology development, and more consistent application across firms and jurisdictions.
25. While respondents generally supported the existing guidance, especially for complex accounting estimates, some indicated that the guidance may need to be re-emphasized, refreshed, or supplemented, particularly in areas where practitioners continue to experience challenges.

Other Comments

26. The Project Team noted that a small number of respondents commented on the design of the survey, noting that certain questions, particularly those using scaled response options, were challenging to answer when the respondent represented a broad range of stakeholders with differing perspectives. For example, certain JSS or PAOs had difficulty selecting a single-scaled response (e.g., indicating no issues or significant issues), as it did not always accurately reflect the range of experiences communicated to them. These comments have been shared with the project team for the PIR of ISA 315 (Revised 2019).

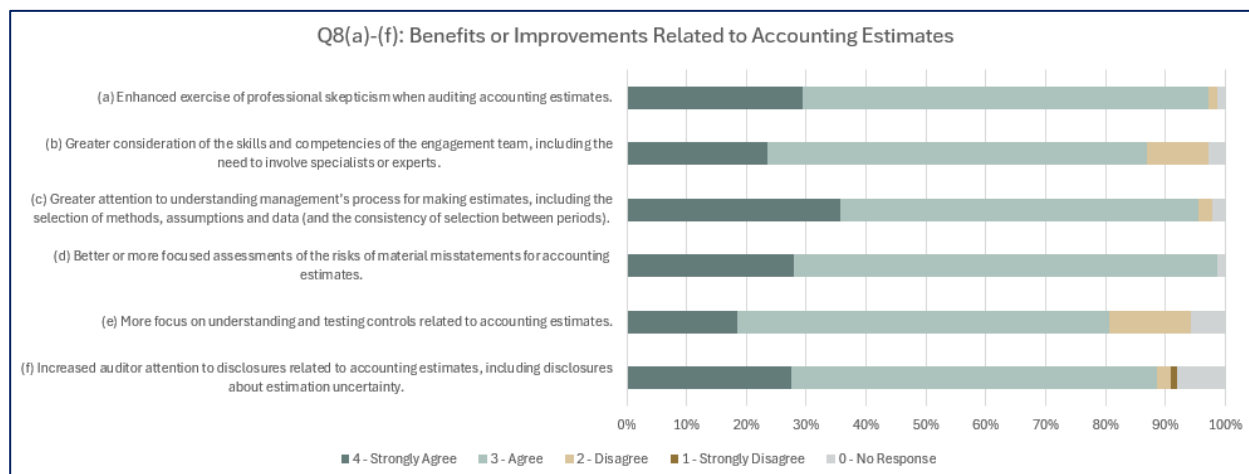
Part C: Perceived Benefits of ISA 540 (Revised)

Highlights from Responses

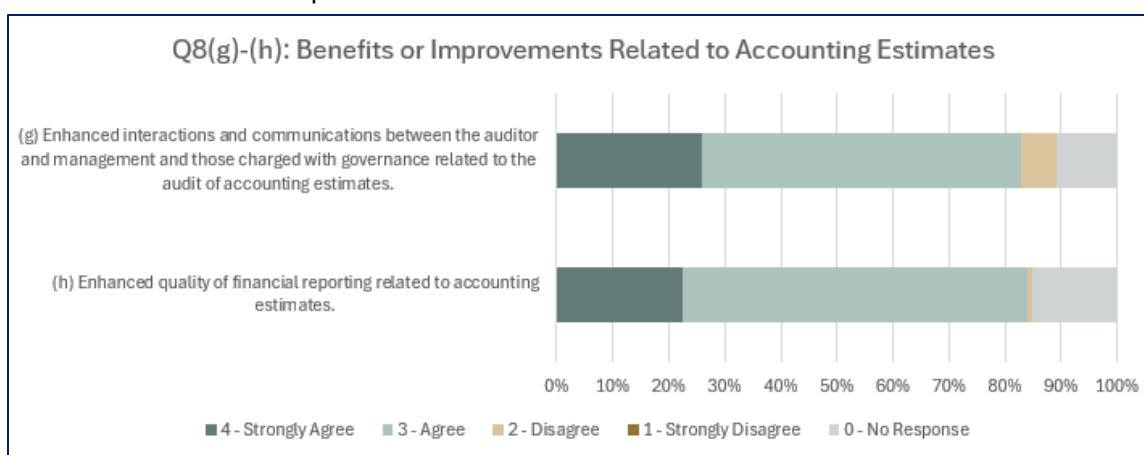
- Strong agreement with the perceived benefits or improvements listed in the survey, with the strongest areas of agreement relating to **risk assessment procedures, exercising professional skepticism** when auditing accounting estimates, and **understanding and evaluation of management's estimation process**.
- Other benefits noted by respondents include:
 - Greater consistency in the audit approach to auditing accounting estimates;
 - Enhanced communications between auditors, management and TCWG regarding accounting estimates, estimation uncertainty, and related disclosures; and
 - Stronger governance and financial reporting, including strengthening management's processes and documentation related to making accounting estimates.

Overview of Responses

27. Section IV of the survey asked respondents about the extent to which they agreed that ISA 540 (Revised) has led to a list of perceived benefits or improvements. The chart below provides an overview of responses.⁴



28. The chart below provides an overview of responses from all stakeholders constituencies for the last two listed benefits or improvements.



29. Notwithstanding that more than 75% of respondents agreed or strongly agreed with all listed benefits or improvements, respondents expressed particularly strong support for the following:
- (a) Better or more focused assessment of the risks of material misstatements (99% agreed or strongly agreed);
 - (b) Enhanced exercise of professional skepticism when auditing accounting estimates (97% agreed or strongly agreed); and

⁴ The information for Questions 8(c), 8(e), and 8(f) includes responses to the same questions in the survey for preparers or issuers and TCWG (Questions 8(a), 8(b), and 8(c) in that survey). These questions were not included in the survey for users of financial statements.

- (c) Greater attention to understanding management's process for making estimates, including the selection of methods, assumptions and data, and the consistency of their application between reporting periods (94% agreed or strongly agreed).
30. The chart also highlights disagreement from respondents related to three of the perceived benefits. In particular:
- (a) **Greater consideration of the skills and competencies of the engagement team.** While some respondents acknowledged that the revised standard has increased consideration of whether specialists or experts are needed, other respondents indicated concerns that its application may create a presumption that specialist or expert involvement is required more frequently than intended. Respondents noted that regulators in some jurisdictions have increased their focus on the use of specialists or experts and may interpret ISA 540 (Revised) as requiring their involvement even where the engagement team collectively has the necessary skills and competencies. Respondents also highlighted practical difficulties in accessing appropriate specialists, particularly for highly specialized assets and in smaller jurisdictions.
 - (b) **Greater focus on understanding and testing controls related to accounting estimates.** Respondents generally acknowledged that ISA 540 (Revised) has increased auditors' focus on understanding controls relevant to accounting estimates, but several did not consider that this had resulted in a corresponding increase in the testing of controls. These respondents noted that, in practice, auditors continue to address the assessed risks of material misstatement primarily through substantive procedures. This was attributed in part to the nature of accounting estimates, which may not lend themselves readily to controls testing, as well as to the absence of sufficiently formalized or robust controls, particularly in smaller entities, to support testing of operating effectiveness.
 - (c) **Enhanced interactions and communications between the auditor and management and TCWG related to the audit of accounting estimates.** While ISA 540 (Revised) has strengthened the framework for communication, respondents indicated that application in practice remains inconsistent and that clearer expectations and more consistent approaches may be beneficial. Respondents noted challenges in determining the nature, extent and timing of matters relating to accounting estimates that should be communicated to management and TCWG, particularly for estimates involving significant judgment or high estimation uncertainty.

Monitoring Group Respondents

31. One MG member highlighted that ISA 540 (Revised) has improved clarity in articulating expectations related to more focused risk assessments, particularly through an increased emphasis on inherent risk factors; the exercise of professional skepticism, including the introduction of the stand-back requirement; and understanding and evaluating management's process for making accounting estimates. Although these enhancements were noted as providing meaningful improvements, this MG member indicated that the clearer requirements have not consistently resulted in robust audit execution in practice. Accordingly, the MG member acknowledged that the objectives of the revision of the standard have been only partially achieved.
32. The other MG member was of the view that ISA 540 (Revised) introduced stronger requirements and clearer guidance for auditors to support robust audit procedures over accounting estimates and

related disclosures, reinforced appropriate professional skepticism, promoted focused risk assessments, and enhanced communications between the auditor, management and TCWG.

Firms, JSS, PAOs, Regulators and Others

33. Overall, respondents noted that ISA 540 (Revised) has contributed to stronger audit quality, particularly when auditing complex estimates. Respondents provided further insights into how the standard has affected audit practice and financial reporting, including that:
- (a) ISA 540 (Revised) has resulted in a more structured and risk-based audit approach to auditing accounting estimates. In particular, the clearer distinction between inherent and control risks and the focus on methods, assumptions and data support the performance of more rigorous and effective risk assessment procedures. Respondents also noted that the enhanced risk assessment enables auditors to design more focused responses to the identified and assessed risks.
 - (b) The enhanced focus on management bias, contradictory evidence, and the stand-back evaluation has enabled auditors to more effectively challenge management's judgments and assumptions and reach more robust audit conclusions.
 - (c) The revised standard has increased consideration of the need to involve specialists and experts in complex engagements. Respondents considered that the more granular assessment of risks has enabled more targeted involvement of specialists, although some cautioned that regulatory expectations may have created a perception that specialists are required more frequently than intended (see paragraph 30(a) above).
 - (d) The enhanced discussions between auditors, management, and TCWG regarding accounting estimates, estimation uncertainty, and related disclosures, have led to a better understanding of the extent and significance of estimates used in financial statements and in some cases, improving the understanding of TCWG of the accounting estimates.
 - (e) The strengthened transparency and focus related to accounting estimates and related disclosures have indirectly led to better quality of financial reporting. However, some respondents cautioned that these benefits cannot be attributed solely to ISA 540 (Revised), noting the contribution of enhancements in financial reporting standards and regulatory oversight.
34. Additional points noted by respondents regarding the perceived benefits arising from the implementation of ISA 540 (Revised) included:
- (a) The additional specificity of ISA 540 (Revised) has reduced ambiguity and led to greater consistency in how audit firms approach the audit of auditing estimates and related disclosures.
 - (b) The increased focus by auditors has in some cases encouraged management to establish more robust processes for selecting methods, assumptions and data, and supporting documentation and strengthened the entity's system of internal controls. However, some respondents noted that smaller entities may not have detailed documentation of their processes for making accounting estimates, which can present challenges in meeting the risk assessment requirements (see further discussion in **Part D, Section II** below).
 - (c) The revised requirements have resulted in clearer documentation of key judgments, assumptions, risk assessments, and audit conclusions. Some respondents, however,

commented on the challenges related to audit documentation, as further discussed in **Part D, Section IV** below.

- (d) The useful foundation of the standard for addressing emerging technologies, including artificial intelligence, although some considered that further implementation support may be beneficial.

Preparers or Issuers of Financial Statements, Including TCWG and Users of Financial Statements

- 35. Some respondents from this stakeholder group noted that ISA 540 (Revised) has encouraged entities to establish clearer ownership of the estimation process and stronger governance around accounting estimates, resulting in a strengthened financial reporting culture.
- 36. In addition, these respondents noted enhanced communication between management and auditors, and increased confidence in financial reporting by promoting greater transparency and consistency in the evaluation of significant estimates and assumptions.

Part D: Potential Issues or Challenges Related to ISA 540 (Revised)

Overall Highlights from Responses

- **Scalability and proportionality** emerged as the most significant implementation challenge, particularly for audits of less complex entities and lower-risk accounting estimates.
- Risk assessment procedures, including the **interaction of ISA 315 (Revised 2019) and ISA 540 (Revised)** and **performing retrospective reviews** were identified as significant challenging aspects of the standard.
- Respondents have experienced issues or challenges in **determining the appropriate response** to assessed risks of material misstatement, **developing an auditor point estimate or range** and in the **use of experts**.
- **Other key challenges** noted related to:
 - Documentation, particularly in the context of risk assessment procedures;
 - The exercise and documentation of professional skepticism; and
 - Emerging technologies and increasingly sophisticated estimation techniques.

- 37. Section V of the survey sought views on potential issues or challenges related to the implementation and application of ISA 540 (Revised). This Part summarizes the responses received from respondents in the following stakeholder groups (**Part E** summarizes the responses received from preparers or issuers of financial statements, including TCWG, and users of financial statements):
 - (a) Accounting firms;
 - (b) JSS;
 - (c) PAOs;
 - (d) Regulators and audit and assurance oversight bodies; and
 - (e) Others.

A total of 68 respondents completed this section of the survey, and their responses are reflected in the charts included in this Part. In addition, comments from the three respondents that provided written comment letters (see paragraph 11) are included in this Part.

Monitoring Group Respondents

38. One MG member noted that, notwithstanding the clearer requirements, challenges remain in the audit of accounting estimates and related disclosures, particularly in areas requiring significant professional judgment. The MG member noted that the exercise of professional skepticism and robust challenge of management assumptions is critical given the current macroeconomic conditions.
39. In addition, this MG member identified the following areas where recurring deficiencies are noted during inspections:
- (a) Deficiencies in risk assessment procedures, including poor linkage between identified risk, relevant controls and the auditor's response, inconsistent assessment of high or significant risks, and inadequate evaluation of the design and implementation of relevant controls;
 - (b) Non-compliance with the requirement to request management to perform additional procedures when management has not taken appropriate steps to understand or address the estimation uncertainty;
 - (c) Inappropriate use of auditor developed point estimates or range; and
 - (d) Insufficient challenge of management judgments and significant assumptions and inadequate consideration of contradictory evidence.
40. The other MG member noted that while the inspections findings related to accounting estimates and related disclosures have improved over the last five years, the auditing of accounting estimates and related disclosures remains an area of focus for auditors and regulators.

Section I – Scalability and Proportionality

Highlights from Responses

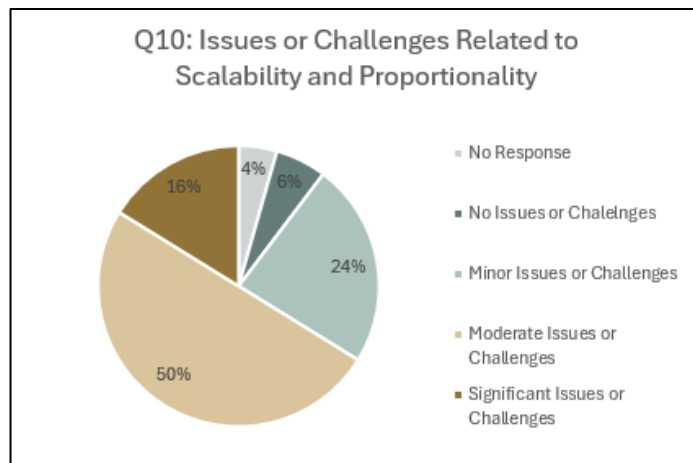
- **Scalability and proportionality** emerged as the most significant implementation challenge, particularly for audits of less complex entities and lower-risk accounting estimates.
- Respondents highlighted challenges in scaling **risk assessment procedures**, particularly in obtaining an appropriate understanding of management's process for simple estimates and determining how audit responses should vary based on the assessed level of risk.
- Concerns also emerged related to the **interaction with ISA 315 (Revised 2019)** and the applicability of retrospective reviews to lower-risk estimates.
- Respondents questioned what constitutes proportionate **documentation** for simple or low-risk estimates, noting duplication with ISA 315 (Revised 2019), firm and regulatory expectations, and the potential for a compliance-driven approach.

Overview of Responses

41. Respondents consistently identified scalability and proportionality as the most significant implementation challenge associated with ISA 540 (Revised), with 66% of respondents noting

moderate or significant issues or challenges related to scalability and proportionality.

42. Although respondents acknowledged that the standard is conceptually designed to support a risk-based and scalable approach, it was noted that the standard is calibrated toward more complex accounting estimates and that auditors often find it challenging to determine how far the requirements may be scaled for simpler estimates with a low level of estimation uncertainty. Respondents in



some cases argued that the revised standard's requirements can appear disproportionate for certain types of estimates (e.g., simple accruals or straight-line depreciation provisions) and may drive auditors to perform more work than the risks warrant.

43. 41% of the respondents in these stakeholder groups indicated that the issues or challenges are due to a lack of clarity or insufficiency of the requirements or application material in the standard. Respondents' suggestions for possible actions to address these issues or challenges are discussed in **Part F**.

Specific Comments

44. Respondents provided additional insights into the issues or challenges related to the scalability and proportionality of ISA 540 (Revised) specifically regarding risk assessment procedures, determining appropriate responses to assessed risks of material misstatement and documentation.

Risk Assessment Procedures

45. Respondents highlighted challenges in applying risk assessment requirements, in particular related to:
- (a) Obtaining an understanding of management's process for making accounting estimates. Comments in this regard often were intertwined with challenges noted regarding the interaction of paragraph 13 of ISA 540 (Revised) with the risk assessment requirements in ISA 315 (Revised 2019), as further discussed in **Section II** below. Respondents questioned whether all aspects of the required understanding are necessary for simple accounting estimates. This is particularly evident in audits of less complex entities, where management processes are often less formalized and supported by limited documentation, making it more difficult for auditors to comply with the requirements; and
 - (b) Performing retrospective reviews of accounting estimates. Respondents generally supported the principle of retrospective review but questioned whether the requirement should apply equally to all accounting estimates. Some respondents noted that retrospective reviews for low-risk estimates often provide little incremental audit evidence beyond that obtained through other audit procedures, such as understanding management's process, making inquiries and performing walkthroughs. See further discussion about retrospective reviews in **Section II** below.

Determining Appropriate Responses to Assessed Risks of Material Misstatement

46. Respondents highlighted challenges in determining the appropriate scalable audit response based on the inherent risk assessment. In particular, respondents noted a lack of clarity regarding how audit responses should differ between higher-risk and lower-accounting estimates, or when there are varying levels of risk relating to elements within the same estimate..

Documentation

47. Although documentation was one of the most frequently cited implementation challenges, respondents were generally not arguing against the documentation requirements in ISA 540 (Revised) themselves, but rather questioning what constitutes proportionate documentation, particularly for simple or low-risk estimates. In this regard, respondents cited as examples excessive documentation of the linkage between risks and responses, formal documentation of judgments that are obvious in uncomplicated situations, and the overlap or duplication of the documentation of risk assessment procedures under ISA 540 (Revised) and ISA 315 (Revised 2019). Respondents also noted that expectations driven by firm methodologies and regulatory inspections contribute to auditors adopting more extensive procedures than they consider necessary in the circumstances, which has corresponding implications for audit documentation. Respondents noted that this may encourage a compliance-driven approach, rather than the exercise of professional judgment in the circumstances and tailoring procedures to reflect the actual level of risk.

Other Comments

48. Respondents noted that resource constraints, limited access to specialists in certain jurisdictions or circumstances, and less sophisticated audit methodologies may further increase the implementation burden for small and medium practices. While many respondents acknowledged that these challenges are more pronounced in smaller entity audits, several emphasized that scalability issues are not limited to less complex entities and may also arise for straightforward accounting estimates in larger entities. Some also observed challenges with “middle ground” estimates, i.e., those that may have some level of estimation uncertainty and judgment, but not enough to justify the full rigor typically associated with highly complex estimates.

Section II – Risk Assessment Procedures

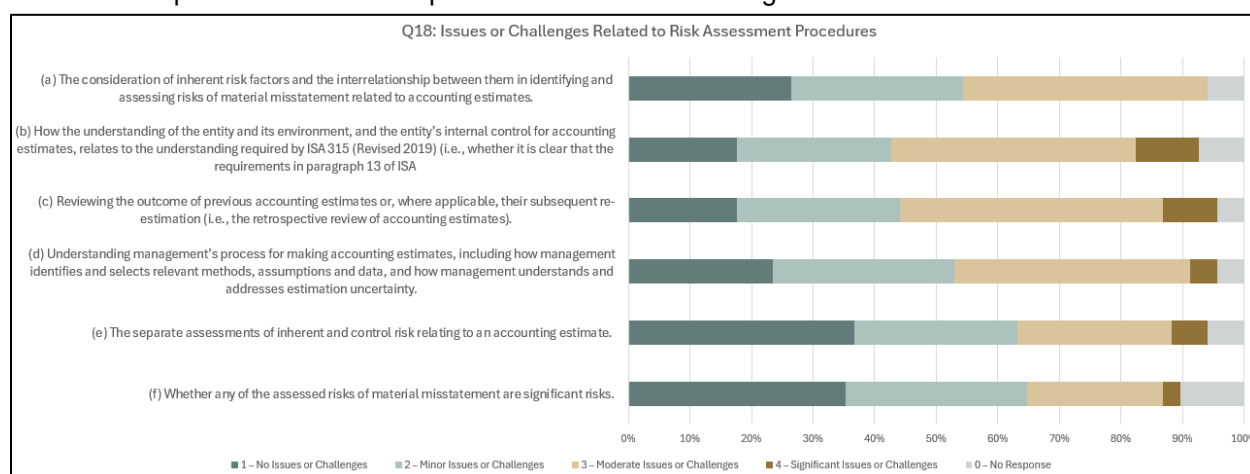
Highlights from Responses

- Risk assessment procedures, including the **interaction of ISA 315 (Revised 2019) and ISA 540 (Revised)** and **performing retrospective reviews** were identified as significant challenging aspects of the standard.
 - Although respondents generally did not view ISA 315 (Revised 2019) and ISA 540 (Revised) as inconsistent, there is a perceived duplication of the requirements and documentation.
 - Respondents highlighted concerns related to the effort required and limited usefulness of retrospective reviews in certain circumstances.
- Other challenges noted by respondents included:

- Evaluating the relative effects of estimation uncertainty, complexity and subjectivity and determining and documenting the appropriate level of inherent risks;
- Determining the appropriate understanding of controls relevant to accounting estimates, particularly when auditors do not intend to test operating effectiveness; and
- The use of new technology, including artificial intelligence (AI), in the development of accounting estimates.

Overview of Responses

49. The chart below provides an analysis of the extent to which respondents have encountered or observed specific issues or challenges related to risk assessment procedures. Over 50% of respondents indicated that they encountered or observed moderate or significant issues or challenges related to how the understanding of the entity and its environment and the entity's internal control for accounting estimates relates to the understanding required by ISA 315 (Revised 2019) and the performance of retrospective reviews of accounting estimates.



50. 32% of respondents indicated that the issues or challenges are due to a lack of clarity or insufficiency of the requirements or application material in the standard. Respondents' suggestions for possible actions to address these issues or challenges are discussed in **Part F**.

Specific Comments

51. Respondents were requested to provide additional input or describe the issues or challenges they have encountered or observed. Paragraphs 52–57 provide an overview of prominent feedback received.

Relationship with ISA 315 (Revised 2019)

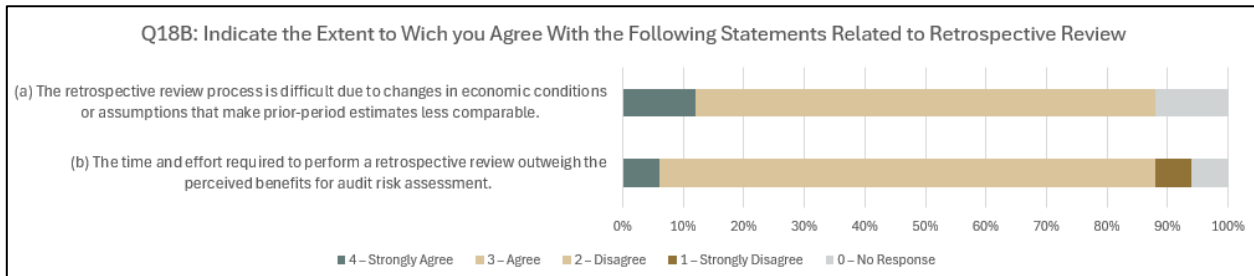
52. While respondents generally did not view the requirements in ISA 540 (Revised) and ISA 315 (Revised 2019) as inconsistent, they indicated that:
- (a) There is **a lack of clarity about how the requirements in ISA 540 (Revised) build upon, rather than duplicate, the requirements in ISA 315 (Revised 2019)**. This can create duplicated effort, particularly when obtaining an understanding of management's processes and the entity's internal controls over accounting estimates. Respondents noted that audit

methodologies often separate the documentation processes for both standards, resulting in parallel, and in worst case, different assessments of inherent risk and additional work effort.

- (b) Several respondents indicated that the **risk assessment requirements in ISA 540 (Revised) should focus primarily on estimates where estimation uncertainty creates meaningful risks of material misstatement**, rather than applying the full framework to all estimates regardless of risk level. The challenges noted are more pronounced in auditing less complex accounting estimates or where management processes may be less formal with limited controls. Respondents pointed in particular to paragraph 13 of ISA 540 (Revised), arguing that a literal interpretation can result in auditors always working through all the matters in paragraph 13 for every estimate, including simple, low-risk estimates with a low level of estimation uncertainty.

Retrospective Reviews

- 53. The chart below summarizes the responses to a follow-up question asking about the degree to which respondents agreed with the two statements shown when they indicated moderate or significant issues or challenges with retrospective reviews.



- 54. With respect to retrospective review, respondents provided the following comments:
 - (a) More than 50% of respondents indicated moderate or significant issues or challenges (see paragraph 49). Respondents questioned the usefulness of the retrospective review in situations where the review is considerably more difficult, such as when estimates are resolved over long periods or when fair value estimates determined using market or cost approaches where there is little subsequent information available. Respondents also highlighted that the changing economic conditions and evolving assumptions reduce the comparability between prior estimates and subsequent outcomes.
 - (b) Respondents also noted that audit planning and risk assessment are typically performed before management has finalized current-year accounting estimates or before sufficient subsequent information becomes available. Consequently, retrospective reviews are often performed later during audit execution, reducing their effectiveness as a risk assessment tool and resulting in a procedure that is sometimes viewed primarily as a compliance exercise.
 - (c) However, about 25% of respondents disagreed or strongly disagreed with the statement that the time and effort required to perform a retrospective review outweigh the perceived benefits for audit risk assessment. Some respondents viewed the retrospective review as a valuable audit tool for identifying management bias and informing current-year risk assessments, while others noted that auditors generally find them beneficial for identifying possible management bias and potential deficiencies in management's estimation process.

Other Comments

55. **Assessment of risks of material misstatement.** Feedback indicated that auditors find it challenging to evaluate the relative effects of inherent risk factors related to accounting estimates, and to clearly articulate and document the rationale supporting the assessed risks (i.e., the reasons given to the assessment of risks of material misstatement). These challenges become more pronounced when different elements of an accounting estimate exhibit different risk characteristics or when multiple inherent risk factors interact.
56. **Understanding internal controls.** Respondents also identified challenges in obtaining an appropriate understanding of the entity's system of internal control relevant to accounting estimates. These challenges were reported to be more pronounced when auditors do not intend to test the operating effectiveness of controls and instead plan to develop an independent point estimate or range. Respondents also indicated uncertainty about how identified control deficiencies should influence the assessment of risks of material misstatement and the design of further audit procedures.
57. **Impact of emerging technologies.** Another theme from the responses related to emerging technologies, including artificial intelligence and the increasing use of third-party pricing services. Respondents highlighted that the use of technology-enabled tools by management are creating additional challenges in understanding and evaluating management's estimation processes and governance over models and data. Most respondents believe ISA 540 (Revised) remains fit for purpose today, but many highlighted the growing impact of technology, AI, machine learning, and increasingly complex estimation models. There was broad agreement that implementation support and guidance will be needed as these technologies become more prevalent. See further discussion about respondents' suggestions in **Part F** below.

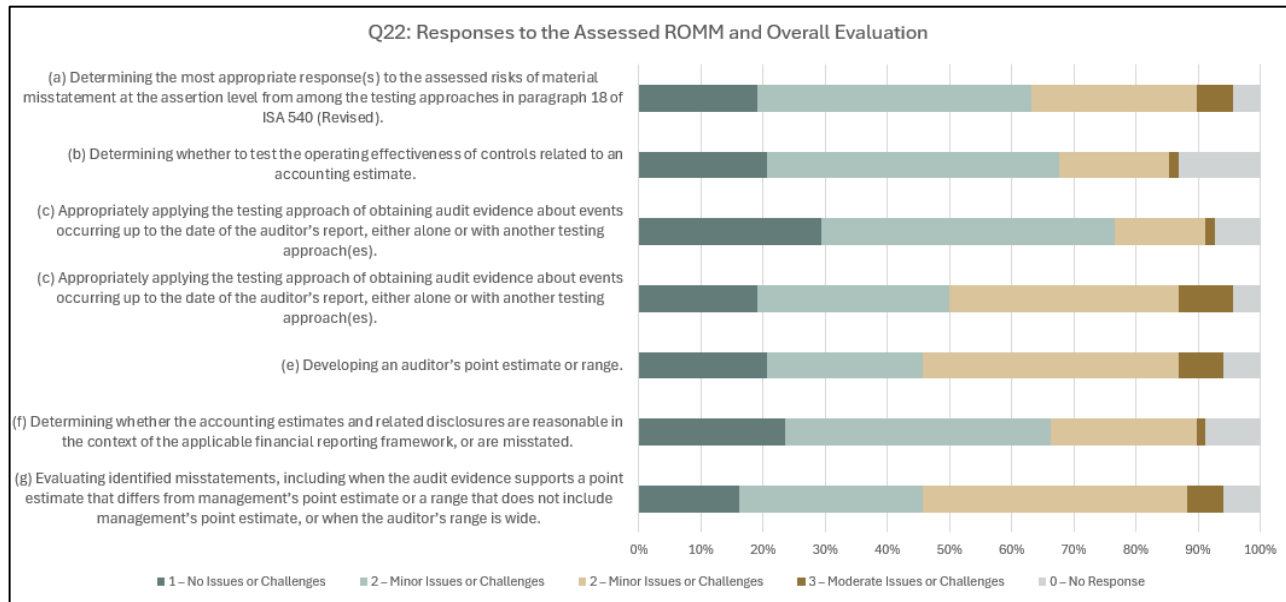
Section III – Responses to the Assessed Risks of Material Misstatement

Highlights from Responses

- Respondents have experienced issues or challenges in **determining the appropriate response** to assessed risks of material misstatement, **developing an auditor point estimate or range**, **testing management's estimation process** and in the **use of experts**. Respondents noted challenges in:
 - Determining the appropriate audit response, which requires significant professional judgment, particularly for estimates involving significant estimation uncertainty, complex models or subjective assumptions.
 - Determining when a point estimate or range is appropriate, the appropriate level of precision, and how to evaluate wide ranges, including where the range exceeds overall materiality.
 - Evaluating management's methods, assumptions and underlying data, particularly for complex estimates, proprietary or "black box" models, forward-looking information and estimates based on limited observable market data.
 - Determining when specialist expertise is required, defining the scope and responsibilities of an auditor's expert, and evaluating the work of management's experts.

Overview of Responses

58. The chart below provides an analysis of responses received indicating the extent to which respondents have encountered or observed specific issues or challenges related to the auditor's responses to the assessed risks of material misstatements and the overall evaluation based on the audit procedures performed.



59. 26% of respondents indicated that the issues or challenges are due to a lack of clarity or insufficiency of the requirements or application material in the standard. Respondents' suggestions for possible actions to address these issues or challenges are discussed in **Part F**.

Specific Comments

60. Respondents provided further explanations on the specific issues or challenges encountered or observed related to responses to the assessed risks of material misstatements, including determining the appropriate audit response, developing the auditor's point estimates or range, the use of experts and other general comments.

Determining the Appropriate Audit Response

61. While respondents generally considered the principles in ISA 540 (Revised) to be clear, respondents identified practical challenges in determining the most appropriate audit response to address the assessed risks of material misstatement relating to accounting estimates. They noted that:

- (a) Greater clarity is needed on when to use a particular approach (or combination of approaches) described in paragraph 18 of ISA 540 (Revised).⁵ In addition, applying the responses described

⁵ Paragraph 18 of ISA 540 (Revised) requires the auditor to include one or more of the following approaches in their further audit procedures:

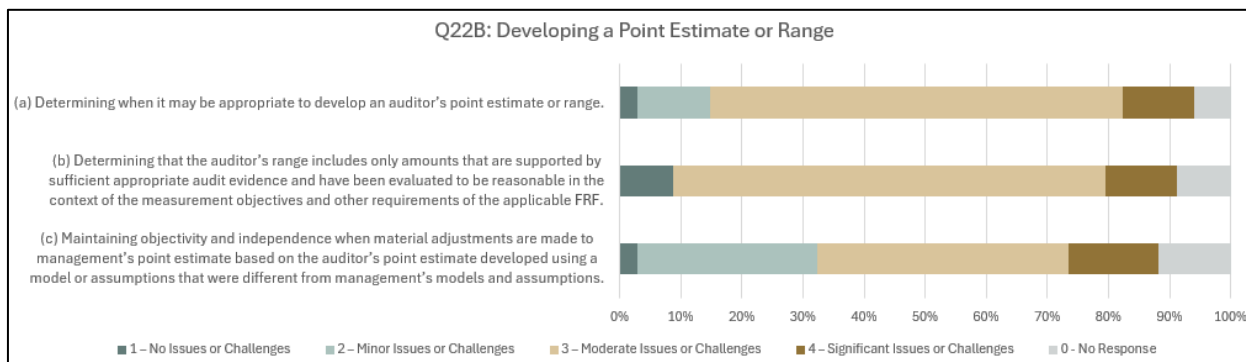
- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report;
- (b) Testing how management made the accounting estimate; or
- (c) Developing an auditor's point estimate or range.

in paragraph 18 requires considerable professional judgment, particularly for estimates involving significant estimation uncertainty, complex models, or subjective assumptions.

- (b) Auditors frequently combine elements of different approaches or transition from one approach to another as additional audit evidence is obtained. Although the application material acknowledges that more than one approach may be appropriate, respondents observed that this can blur the distinction between the responses and create challenges in documenting the audit approach consistently.
- (c) Selecting an appropriate response should remain proportionate to the assessed risks. They cautioned that auditors may default to standardized procedures or more extensive work than necessary, rather than tailoring procedures to the specific sources of estimation uncertainty and the assessed risks of material misstatement.

Developing An Auditor's Point Estimate or Range

62. Developing an auditor's point estimate or range was the most frequently identified area of practical challenge. Comments related not only to a need for further clarity about when to develop a point estimate or range, but also indicated challenges with evaluating the results, including when the range is multiples of overall materiality.
63. The chart below summarizes responses to a follow-up question when respondents have indicated that they encountered or observed moderate or significant issues or challenges developing an auditor's point estimate or range.



64. Respondents consistently indicated that, while auditor-developed estimates can provide persuasive audit evidence, their application often involves significant professional judgment and raises practical implementation issues, such as:
- (a) Determining the appropriate level of precision when developing an auditor's point estimate or range, particularly for estimates characterized by significant estimation uncertainty. Respondents noted that auditor-developed ranges may, in some circumstances, become very wide and sometimes exceed overall materiality. This creates uncertainty regarding whether the resulting range provides sufficiently persuasive audit evidence and how differences between the auditor's estimate and management's estimate should be evaluated.
 - (b) Determining whether differences between management's estimate and the auditor's estimate constitute misstatements, particularly where management's estimate falls within a wide auditor range, falls only marginally outside the range, or where different audit approaches have been applied to different components of the estimate. Respondents indicated that these judgments

become increasingly difficult where estimates are highly sensitive to changes in assumptions or where reasonable outcomes span a broad range.

- (c) The impact on the auditor's evaluation in circumstances where management's estimate may fall within the auditor's acceptable range even though management may have used inappropriate methods, assumptions or data.
- (d) Maintaining auditor objectivity and independence. Respondents noted that developing an auditor's estimate may create practical concerns where management subsequently adopts the auditor's estimate, potentially creating the perception that the auditor has assumed management's responsibility for preparing the accounting estimate.

Testing Management's Estimation Process

- 65. Respondents indicated that testing how management developed an accounting estimate remains one of the more judgmental aspects of ISA 540 (Revised), particularly where estimates rely on complex methodologies, significant assumptions or limited observable market data. Respondents reported practical challenges in evaluating the appropriateness of methods, challenging management's assumptions, and obtaining sufficient appropriate audit evidence regarding the completeness and accuracy of the underlying data.
- 66. Respondents also noted that practical challenges become more pronounced where accounting estimates rely on complex valuation models, forward-looking information, proprietary or "black box" methodologies, large volumes of data, or technological-enabled tools. They identified the limited transparency over models, evolving market conditions and the availability of corroborative evidence as factors that increase the difficulty of obtaining sufficient appropriate audit evidence and exercising professional skepticism.

Involvement of Experts

- 67. With respect to issues or challenges related to responses to assessed risks of material misstatement, respondents commented on the involvement of management's experts or auditor's experts when auditing accounting estimates. These comments were similar to comments received in response to the separate question on specialized skills or knowledge in Section V of the survey, and therefore have been addressed here. Challenges noted included the following:
 - (a) Determining when specialist expertise is required continues to involve significant professional judgment, particularly where estimates rely on highly specialized valuation techniques, complex financial models, actuarial calculations, or emerging technologies.
 - (b) Respondents further observed challenges in defining the scope of an auditor's expert's work and clearly distinguishing responsibilities between the audit team and the expert. In particular, questions were raised regarding responsibility for testing the underlying data used by experts and ensuring that sufficient audit evidence is obtained over the completeness and accuracy of information incorporated into complex models.
 - (c) Where management uses experts, respondents emphasized the importance of appropriately evaluating the competence, capabilities and objectivity of those experts while avoiding undue reliance on their conclusions. Inspection findings indicated that auditors do not always sufficiently challenge management experts' assumptions, methodologies or conclusions,

particularly where proprietary models or limited documentation restrict auditors' ability to fully understand the work performed.

Section IV – Other Matters

Highlights from Responses

- **Other key challenges** noted related to:
 - Documentation, particularly in the context of risk assessment procedures;
 - The exercise and documentation of professional skepticism; and
 - Communication with management and TCWG.

68. Respondents provided the following comments on other matters related to auditing accounting estimates:

- (a) **Documentation.** Respondents noted that the difficulty is not performing the audit procedures themselves but rather demonstrating through documentation how professional judgments were exercised, how professional skepticism was applied, and how audit conclusions were reached. See also the discussion about documentation in paragraph 47 above.
- (b) **Requirements to reinforce the exercise of professional skepticism.** While respondents indicated that ISA 540 (Revised) has strengthened the application of professional skepticism when auditing accounting estimates, challenges remain in consistently applying the related requirements in practice. In particular, respondents highlighted difficulties in identifying indicators of management bias and obtaining, evaluating, and documenting contradictory audit evidence, especially when objective external evidence is limited. These challenges are further influenced by auditor experience and expertise, firm culture, biases, the quality of management-prepared estimates, and practical constraints such as limited documentation and reporting timelines. However, there was broad consensus across stakeholder groups that these issues primarily reflect the inherent complexity of auditing accounting estimates and the practical application of professional skepticism, rather than deficiencies in ISA 540 (Revised) itself.
- (c) **Communication with management and TCWG.** Respondents suggested that ISA 540 (Revised) has generally strengthened communication with management and TCWG, with the principal reported benefits including more frequent and robust dialogue with management; greater challenge of management's assumptions, methods, and data; and increased attention by TCWG to accounting estimates and estimation uncertainty. On the other hand, some respondents also observed difficulties communicating to TCWG about highly judgmental accounting estimates, as concepts related to accounting estimates can sometimes be difficult to understand.
- (d) **Group audits.** Respondents questioned how group engagement teams should evaluate work performed by component auditors, document their review of component-level accounting estimates, and perform procedures such as retrospective reviews within the framework of ISA 600 (Revised).⁶

⁶ Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

Part E: Impacts of ISA 540 (Revised) – Preparers or Issuers, Including TCWG, and Users of Financial Statements

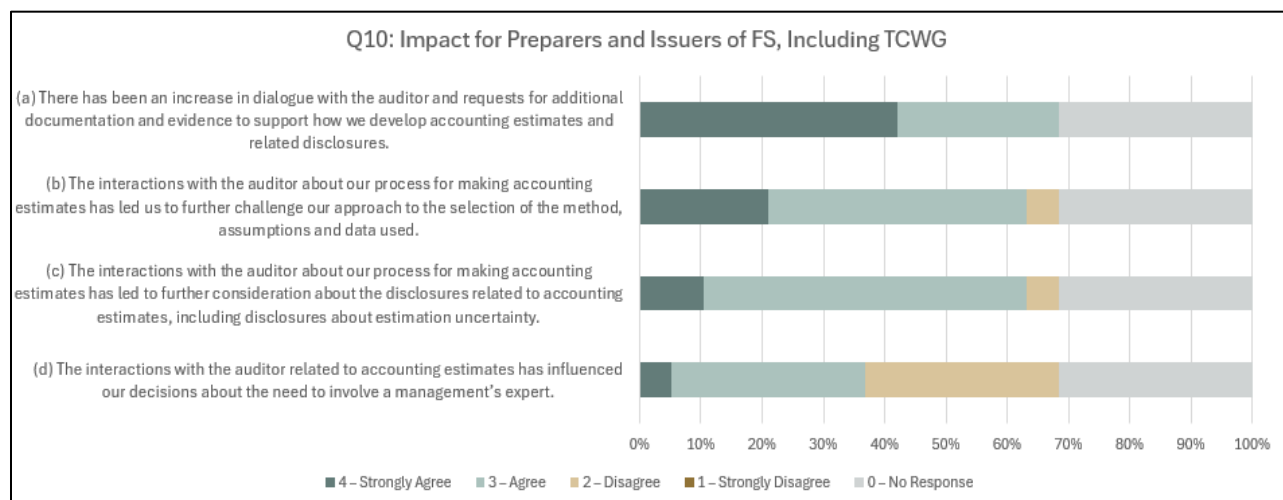
Highlights from Responses

- Preparers or issuers of financial statements, including TCWG, and users of financial statements indicated that ISA 540 (Revised) has had a positive impact on the audit of accounting estimates and related disclosures.
- The revised standard has improved interactions between auditors and management, leading to more robust discussions on accounting estimates, stronger governance and estimation processes, and improvements in the quality and transparency of financial statement disclosures.
- While implementation has required additional audit effort and resources, respondents generally viewed these costs as justified by the resulting improvements in audit quality, consistency, and transparency, although some implementation challenges remain.

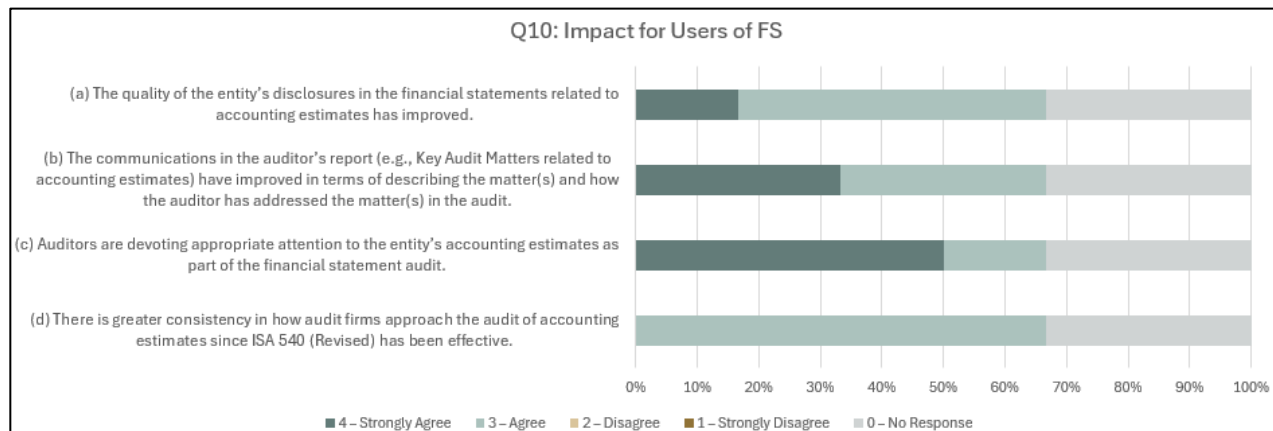
69. This Part summarizes the responses received from preparers or issuers of financial statements, including TCWG, and users of the financial statements on the impacts related to ISA 540 (Revised). A total of 25 respondents completed this section of the survey, as noted in paragraph 10 above. As noted in paragraph 14, the Project Team will undertake targeted outreach activities in Q4 2026. The feedback received will supplement the analysis presented in this Part.
70. Paragraphs 71–72 present an overview of responses to identified statements about specific impacts relating to auditor’s work and the outcomes of such work. In addition, paragraphs 73–74 highlight additional insights from specific comments shared by respondents.

Overview of Responses

71. Over 60% of the preparers or issuers responding to the survey indicated that enhanced interactions with the auditors have positively influenced how the entities are developing their accounting estimates and related disclosures. However, only 35% of these respondents agreed that the revised standard has had an influence on decisions about the need to involve a specialist, while about 30% disagreed. Respondents that disagreed did not explain the reasons for their disagreement. Therefore, the Project Team will seek additional input on this in the upcoming outreach activities.



72. Similarly, users of financial statements had positive feedback related to the impacts of ISA 540 (Revised). The majority of respondents agreed that the revised standard has improved the quality of the disclosures in the financial statements and the communication included in the auditor's report. In addition, 50% of respondents strongly agree that auditors are devoting appropriate attention to auditing accounting estimates as part of the audit process.



Specific Comments

73. Overall, respondents in these stakeholder groups indicated that the implementation of ISA 540 (Revised) has had a positive impact on the audit of accounting estimates and related disclosures. More specifically, respondents noted:
- (a) The revised standard has strengthened audit quality by promoting a more rigorous, risk-based approach, enhancing the exercise of professional skepticism, and increasing the focus on estimation uncertainty, complexity, subjectivity, and potential management bias. Respondents observed that auditors are undertaking more tailored audit procedures, obtaining more persuasive audit evidence, and providing more robust support for their conclusions.
 - (b) The enhanced focus on methods, assumptions and data has resulted in more robust discussions throughout the audit process. These discussions have strengthened governance over significant accounting estimates, encouraged greater oversight of management's judgments, and contributed to improvements in the quality and transparency of financial statement disclosures. In addition, respondents also observed that earlier discussion between management and auditors has reduced issues arising later in the audit process and fostered a more collaborative audit environment.
 - (c) The increased level of auditor challenge has encouraged management to strengthen its estimation processes by improving the quality of supporting documentation, enhancing model governance and internal review processes, and providing more comprehensive documentation of assumptions and methodologies.
74. On the other hand, respondents have noted some implementation challenges, including:
- (a) The additional audit effort, documentation, and training, particularly for complex estimates. The increased demands for preparers can be difficult to meet for smaller or growing organizations, given their limited resources. However, respondents noted that these costs can be justified by the resulting improvements in audit quality, consistency, and transparency.

- (b) Some inconsistencies in the application of the standard across audit teams, particularly regarding evidence for forward-looking assumptions.
- (c) Difficulties in obtaining reliable historical or benchmark data in certain jurisdictions, particularly in emerging markets.

Part F: Respondent Suggestions to Address the Issues or Challenges and the Project Team’s Initial Views about Possible Actions

Highlights from Responses

- Overall, there were strong calls from respondents for **additional implementation support**. Rather than changes to the requirements of ISA 540 (Revised), respondents suggested providing additional non-authoritative guidance, including practical examples, case studies, decision trees, and other guidance on applying the standard.
- While a large number of respondents favored the development of additional non-authoritative guidance, there were **some calls for the IAASB to consider narrow-scope amendments** to ISA 540 (Revised), in particular to address challenges related to scalability and proportionality.

Feedback About Suggestions to Address Issues or Challenges

75. In addition to the matters that have been discussed in **Parts B–E** above, Section V of the survey, which was tailored for different stakeholder groups, also asked respondents to share specific suggestions for how the IAASB can best address the issues or challenges identified. This Part summarizes the input received from respondents.

Monitoring Group Respondents

76. One MG member encouraged the IAASB to perform further analysis to determine whether targeted revisions to standards, additional application material or non-authoritative guidance would support more consistent execution in the audit of accounting estimates. This MG member also noted that firm-level systems of quality management underpin consistent audit quality outcomes in the audit of accounting estimates. Risk assessment procedures and appropriate challenge of management are supported by effective resource management, consultation processes, monitoring activities and access to specialist expertise. Additional guidance and examples on how to address auditing estimates when developing and implementing a system of quality management could be helpful to firms.
77. The other MG member is also of the view that an appropriate response for the challenges observed could include standard setting (e.g., narrow-scope amendments) or non-authoritative guidance. This MG member suggested a number of specific areas of focus that may be appropriate for the IAASB’s response, including material on disclosures of non-monetary amounts that may be subject to “estimation uncertainty” (e.g., those disclosed as a ratio, percent or other format), given the prevalence of such disclosures in the financial statements and current auditor inconsistent understanding whether to treat such figures as accounting estimates.

Firms, JSS, PAOs, Regulators and Others

78. Across stakeholder groups, respondents indicated that the root causes of the issues or challenges relate to the application of the standard rather than deficiencies in the requirements of ISA 540 (Revised). Accordingly, there was broad support for maintaining the principles-based nature of the standard, with respondents noting that the existing requirements provide an appropriate framework for auditing accounting estimates.
79. Respondents identified a strong need for additional non-authoritative guidance, suggesting broad consensus that additional implementation support materials would provide the greatest benefit in addressing the challenges encountered or observed.

Non-Authoritative Guidance

80. Respondents suggested that the development of guidance can be in the form of:
- (a) Illustrative examples that are practical and reflect real-life experiences (i.e., not too simple or too complex), including industry-specific examples;
 - (b) Frequently asked questions;
 - (c) Case studies demonstrating how the principles and requirements are applied in different situations; or
 - (d) Decisions trees or flowcharts guiding auditors through the various requirements of ISA 540 (Required).
81. With respect to the topics to address in such non-authoritative guidance, respondents suggested the following:
- (a) Risk assessment procedures, focusing on the use of inherent risk factors to identify and assess inherent risk, retrospective reviews and the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised);
 - (b) The auditor's responses to risks of material misstatement, including the selection of suitable testing approaches and tailoring responses as appropriate to the risk arising from methods, assumptions and data;
 - (c) The evaluation of identified misstatements against the auditor's point estimate or range;
 - (d) The use of an expert, including circumstances when expert involvement is necessary and how to evaluate an expert's competence and objectivity;
 - (e) Documentation, including the extent of documentation expected (i.e., demonstrating what sufficient but not excessive documentation could look like); and
 - (f) The impact of management's accounting estimates developed using technology-enabled tools, including artificial intelligence.
82. Respondents also indicated that the guidance should specifically highlight how the requirements of ISA 540 (Revised) may be tailored to less-complex entities and simple and low-risk estimates. Respondents noted that providing such guidance would assist in achieving greater consistency and efficiency in the application of the standard.

83. On the other hand, respondents also expressed the need for additional practical examples addressing more complex estimates.

Narrow-Scope Amendments

84. Despite the strong calls for non-authoritative guidance rather than changes to the requirements or core principles of ISA 540 (Revised), some respondents were of the view that limited or narrow-scope amendments to the standard would best address certain issues or challenges encountered or observed. In particular, these respondents suggested:
- (a) Clarifying the scope of application of the standard by limiting the application of ISA 540 (Revised) to estimates involving a higher level of estimation uncertainty. It was noted that the application of the standard to all estimates is not reasonable or a proportionate approach. It was further observed that, in practice, auditors focus on estimates involving estimation uncertainty that has not been assessed as acceptably low or as being at the lower end of the spectrum of risk. Changing the scope of the standard to apply only to significant risks and other risks that are not at the lower end of the spectrum of inherent risk would reduce the challenges around work effort and documentation for simple, straight-forward accounting estimates;
 - (b) Enhancing or revising certain requirements and related application material to incorporate more scalability and proportionality to the standard (e.g., to add conditionality to the requirement to perform a retrospective review), including revising the terminology used if necessary, and driving greater consistency between the risk assessment procedures and the work effort expected;
 - (c) Streamlining the requirements included in ISA 540 (Revised) to remove the perceived duplication with ISA 315 (Revised 2019); and
 - (d) Referencing ethical requirements, including independence requirements.

Other Suggestions

85. In addition to the development of non-authoritative guidance or narrow-scope amendments, respondents suggested that the IAASB undertake the following course of actions to address the challenges or issues:
- (a) Improve the visibility and accessibility of the existing non-authoritative guidance and implementation support materials. Respondents noted that awareness and use of the guidance is uneven, particularly among smaller and medium-sized practices, and suggested that the IAASB consider re-promoting the materials, centralizing implementation resources, and ensuring that guidance remains updated as standards evolve.
 - (b) Continued engagement with regulators, practitioners, and other stakeholders would further help the IAASB identify emerging challenges and inform future updates to guidance and support materials.
 - (c) Development of training materials, such as webinars, tailored for smaller or medium-sized audit firms and the efficient application of the revised standard or for junior audit staff to help them apply professional judgment and exercise professional skepticism.

86. Many respondents also suggested analyzing the results and considering possible courses of action for this PIR in conjunction with the findings of the planned PIR of ISA 315 (Revised 2019) and in view of ongoing developments in the Audit Evidence and Risk Response project.

Preparers or Issuers of Financial Statements, Including TCWG and Users of Financial Statements

87. Similar to the suggestions provided by firms, JSS, PAOs, regulators and others, preparers or issuers of financial statements, including TCWG, and users of financial statements suggested additional non-authoritative guidance including practical examples and case studies on auditing complex accounting estimates. Such guidance may focus on sector-specific examples and specific guidance on the proportionate application of ISA 540 (Revised) for smaller entities and those operating in emerging markets.

Project Team's Initial Views about Possible Actions

88. The Project Team acknowledges the overall positive feedback received from respondents regarding the implementation of ISA 540 (Revised) and the broad agreement that the revised standard has contributed to improving the audit of accounting estimates and related disclosures. While respondents identified certain challenges and areas where further support may be beneficial, the Project Team observed that the feedback did not indicate that ISA 540 (Revised) is fundamentally flawed or not achieving its intended objectives. Accordingly, the Project Team's preliminary view is that the standard remains fit for purpose and that there is no immediate urgency to pursue revisions to the requirements. Instead, the Project Team believes that the focus should initially be on targeted actions, such as additional implementation support and other measures, to address identified challenges and further promote consistent application of the standard.
89. The Project Team agrees with the view expressed by a respondent that addressing the issues or challenges encountered will require continued and enhanced collaboration among standard setters, regulators, audit firms and other participants in the external reporting ecosystem, in addition to targeted non-authoritative guidance. The Project Team notes, as stated in the PIR Action Plan, that in addition to activities within its remit, the Board may decide that there are opportunities to facilitate or support actions by others.
90. The Project Team also notes that some matters identified by respondents, while relevant to the application of ISA 540 (Revised), do not arise from requirements specific to ISA 540 (Revised) and therefore fall outside the scope of potential actions arising from this PIR. These include matters relating to:
- (a) The circumstances in which an auditor's expert is used, including the auditor's assessment of whether the necessary skills and expertise are available and the documentation of the evaluation of the expert's work. The Project Team is of the view that these are best addressed by ISA 620;⁷
 - (b) The extent of work necessary to obtain sufficient appropriate audit evidence. This matter is being considered as part of the IAASB's broader work on Audit Evidence and Risk Response; and

⁷ ISA 620, *Using the Work of an Auditor's Expert*

- (c) More general aspects of audit documentation.

Non-Authoritative Guidance

91. The Project Team notes the strong support from respondents for the development of additional non-authoritative guidance to support the implementation of ISA 540 (Revised). Given the consistency of this feedback across stakeholder constituencies, the Project Team is of the view that exploring further implementation support is an appropriate avenue to address some of the challenges identified through the PIR.
92. However, the Project Team also notes that respondents identified a broad range of areas where additional guidance could be helpful, and that significant effort would be involved to develop materials, particularly case studies or worked examples for both simple and complex accounting estimates. Such development also likely would involve a substantial commitment of resources. Accordingly, the Project Team believes that the IAASB will need to carefully assess the prioritization of topics, the resources required, and the timing for developing such materials. Developing comprehensive guidance across all areas identified by respondents may not be feasible in the short term and may not represent the most effective approach to addressing implementation challenges.
93. As an initial step, the Project Team believes that increasing awareness and the accessibility of existing IAASB non-authoritative support materials could provide immediate value. Respondents noted that existing tools, such as flowcharts, illustrative examples, and presentations, are useful but may not be sufficiently known or utilized. Accordingly, the Project Team believes that efforts to promote and enhance the visibility of existing resources should be considered as part of the IAASB's response.
94. In addition, the Project Team believes that there may be opportunities to collaborate with JSS to develop targeted implementation support in areas where common challenges have been identified. Such collaboration could help leverage existing expertise, promote consistency, and facilitate timely development of practical resources.
95. With respect to timing, the Project Team acknowledges and agrees with the views of respondents that possible actions arising from this PIR should be considered in conjunction with the findings of the planned PIR of ISA 315 (Revised 2019) and the Audit Evidence and Risk Response project. That said, however, the Project Team is of the view that there may be certain actions that could be considered in the near term to address some of the issues and challenges identified. For example, a set of FAQs could be developed to address retrospective reviews, the selection of testing approaches, or the evaluation of possible misstatements. Other topics, including the interaction with ISA 315 (Revised 2019) could be explored initially, as the Project Team does not believe it is likely that the planned PIR of ISA 315 (Revised 2019) would result in fundamental changes to the underlying risk assessment model. Additional FAQs could be developed in stages following the completion of the PIR of ISA 315 (Revised 2019) and in view of changes to the standards arising from the Audit Evidence and Risk Response project.

Narrow-Scope Amendments to ISA 540 (Revised)

96. The Project Team considered respondents' suggestions for targeted amendments to ISA 540 (Revised), including suggestions to redefine the scope of the standard, introduce additional scalability considerations, and clarify interactions with ISA 315 (Revised 2019).

97. With respect to suggestions to narrow the scope of ISA 540 (Revised) to focus only on significant or more complex accounting estimates, the Project Team noted that similar considerations were raised during the development of ISA 540 (Revised), and the Board concluded that the requirements should apply to all accounting estimates, while allowing the auditor's approach to be appropriately responsive to the circumstances of the engagement.⁸ Redefining the scope of the standard would therefore represent a fundamental change to the requirements and could have broader implications for the application of ISA 540 (Revised).
98. Regarding other suggestions for narrow-scope amendments, including additional scalability considerations or further clarification of the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised), the Project Team notes that respondents generally did not identify fundamental deficiencies, as noted in paragraph 78. Rather, feedback indicated areas where practitioners would benefit from additional clarification or examples to support consistent application. Accordingly, the Project Team is of the view that these matters may be better addressed through implementation support materials rather than amendments to the standard.
99. The Project Team acknowledges, however, that clarifications to the requirements in ISA 540 (Revised) may promote consistent application, given the authoritative nature of the standards. Therefore, the Project Team is seeking initial input from the Board about whether targeted amendments in specific areas may provide meaningful benefits and would appropriately address the challenges identified by stakeholders.

Training Materials and Stakeholder Engagement

100. The Project Team is of the view that the development of detailed training programs and materials is primarily the responsibility of audit firms, methodology developers, and other organizations that support auditor education and implementation. Developing such materials is therefore not considered to be within the primary role of the IAASB.
101. The Project Team will, however, continue engaging with stakeholders to better understand the nature and extent of implementation challenges, including through targeted outreach with preparers, practitioners, regulators, and other relevant stakeholders. These discussions will help inform the Project Team's assessment of whether further actions, including additional implementation support or targeted standard-setting activities, are warranted.

Matters for IAASB Consideration:

3. The Board is asked for its views on the Project Team's initial views about possible actions. In particular, the Board is asked to reflect on:
 - (a) The matters highlighted in paragraph 90 and whether members agree that these are not ISA 540 (Revised) issues.
 - (b) The development of non-authoritative guidance, including areas of priority, timing and resources (see paragraphs 91–95); and

⁸ See paragraphs 11–15 in the ISA 540 (Revised) [Basis for Conclusions](#)

(c) Consideration of narrow-scope amendments, including the potential areas that may be targeted (see paragraphs 96–99).

4. Does the Board have any other specific advice for the Project Team in developing final recommendations for IAASB consideration in December 2026 regarding the spectrum of possible further actions as set out in the PIR Action Plan (i.e., no further action, further information-gathering activities, standard setting activities, developing non-authoritative materials)?

Part G: Way Forward

102. The Project Team will continue undertaking targeted outreach activities to supplement the feedback received through the online survey, as described in paragraph 14 above.
103. The Project Team plans to present the results of its further activities and its recommendations for further actions for the IAASB's consideration in December 2026.

Feedback Statement

104. For purposes of keeping stakeholders informed, providing transparency and closing out the PIR of ISA 540 (Revised), the Project Team will develop a draft PIR Feedback Statement for the Board's consideration in December 2026.
105. Such PIR Feedback Statement is non-authoritative in nature. Nevertheless, the importance of PIRs in the standard-setting process is recognized in the IAASB and IESBA Integrated Due Process and Public Interest Framework (PIF) Operating Procedures. Therefore, the Board will be asked for its input on the draft PIR Feedback Statement, which will be finalized and cleared for publication through negative clearance by the Board after the IAASB December 2026 meeting.

PIR Framework

106. The Project Team will continue to collaborate on the approach to PIRs with the ISA 315 (Revised 2019) PIR project team and IESBA staff assigned to PIRs. The objective is to share ideas and experiences that will contribute to standardization and consistency in the process and execution.

Appendix 1

Project Team Members and Activities

Project Team Members

1. The Project Team consists of the following members:
 - Isabelle Raiche (IAASB Staff)
 - Dan Montgomery (Senior Consultant to the IAASB)
2. Information about the project can be found [here](#).
3. The Project Team's activities in Q1–Q3 2026 are as reflected in the materials for **Agenda Item 8**.

Appendix 2

List of Respondents to the Public Consultation for the PIR of ISA 540 (Revised)⁹

No.	Respondent	Region
Monitoring Group (2)		
1.	International Forum of Independent Audit Regulators (IFIAR) *	Global
2.	International Organization of Securities Commissions (IOSCO) Committee 1*	Global
Users of Financial Statements (6)		
3.	Bank Aljazira	Middle East
4.	Credicorp Ltd.	South America
5.	European Federation of Financial Analysts' Societies (EFFAS)	Europe
6.	Gulf International Bank KSA	Middle East
7.	Kei Tsuchiya (The Securities Analysts Association of Japan)	Asia Pacific
8.	Rasid Payments Company	Middle East
Preparers or Issuers of Financial Statements and TCWG (19)		
9.	Ahmed Alfaraj	Middle East
10.	AJIL Financial Services Company	Middle East
11.	Alinma Bank	Middle East
12.	Arab National Bank	Middle East
13.	Banque Saudi Fransi (BSF)	Middle East
14.	Credit (Digital Financing From Anywhere)	Middle East
15.	Emirates National Bank of Dubai	Middle East
16.	Geidea Company	Middle East
17.	Hala Payments	Middle East
18.	Lendo Saudi Arabia for Financing Company	Middle East
19.	Madfu BNPL Financing Company	Middle East
20.	Masar Finance Company	Middle East
21.	Mike Reid	Asia Pacific
22.	National Bank of Kuwait, KSA	Middle East

⁹ In the table, views provided in an individual capacity are highlighted in grey. In addition, (i) respondents identified with (*) provided offline submissions in a narrative format; (ii) members of the [IAASB or IESBA JSS Liaison Group](#) are denoted with (#); (iii) Forum of Firms members are indicated with a (**).

No.	Respondent	Region
23.	Nayifat Finance Company	Middle East
24.	Rami Aljabri	Middle East
25.	SNB	Middle East
26.	Saudi Real Estate Refinance Company	Middle East
27.	STC Bank	Middle East
Regulators and Audit and Assurance Oversight Bodies (9)		
28.	Botswana Accountancy Oversight Authority (BAOA)	Africa
29.	Canadian Public Accountability Board (CPAB) *	North America
30.	Chamber of Auditors of Azerbaijan Republic	Global
31.	Chamber of Auditors of the Czech Republic	Europe
32.	Independent Regulatory Board for Auditors – South Africa (IRBA) [#]	Africa
33.	Lesotho Institute of Accountants	Africa
34.	Public Accountants and Auditors Board Zimbabwe	Africa
35.	Saudi Central Bank (SAMA)	Middle East
36.	United Kingdom Financial Reporting Council (UK FRC) [#]	Europe
JSS (11)		
37.	Auditing and Assurance Standards Board of Canada (AASB) [#]	North America
38.	Australian Auditing and Assurance Standards Board (AuASB) [#]	Asia Pacific
39.	Group of Latin American Accounting Standards Setters (GLASS)	South America
40.	Hong Kong Institute of Certified Public Accountants (HKICPA) [#]	Asia Pacific
41.	Institut der Wirtschaftsprüfer (IDW) [#]	Europe
42.	Instituto Mexicano de Contadores Públicos (IMCP) [#]	North America
43.	Japanese Institute of Certified Public Accountants (JICPA) [#]	Asia Pacific
44.	New Zealand Auditing and Assurance Standards Board of the External Reporting Board [#]	Asia Pacific
45.	Royal Netherlands Institute of Chartered Accountants (NBA) [#]	Europe
46.	Saudi Organization for Chartered and Professional Accountants (SOCPA) [#]	Middle East
47.	South Africa Institute of Chartered Accountants (SAICA)	Africa
Accounting Firms (24)		
48.	Alzoman, Alfahad & Alhajjaj Professional Services	Middle East

No.	Respondent	Region
49.	Baker Tilly International (BKTi)	Global
50.	BDO International Limited (BDO)	Global
51.	BKR ISIK Consulting (International Auditor Company)	Global
52.	Cristian Emmanuel Munarriz (Practitioner)	South America
53.	Crowe Solutions for Professional Consultancy	Middle East
54.	Deloitte Touche Tohmatsu Limited (DTTL)	Global
55.	Dr. Mohamed Al-Amri & Co. (Member firm to BDO International Limited)	Global
56.	ELVI Audit FINANS LLC	Europe
57.	Ernst & Young Global Limited (EY)	Global
58.	Forvis Mazars Global Limited (Mazars)	Global
59.	Grant Thornton International Ltd (GTI)	Global
60.	Housam Halawa (Practitioner)	Middle East
61.	Kia Atlas (Director, RSM)	South America
62.	KPMG International Limited (KPMG)	Global
63.	Luna Space Financial Company	Middle East
64.	Natiq Aliyev (Practitioner)	Middle East
65.	PricewaterhouseCoopers International Limited (PwC)	Global
66.	Qulu Cebizade (Practitioner)	Europe
67.	RSM International Limited (RSM)	Global
68.	Shamistan Suleyman (Practitioner)	Europe
69.	Sultan Ahmed Alshubaily CPA	Middle East
70.	Wing Tam (Principal, Forvis Mazars)	Asia Pacific
71.	Zamin Huzeynov (Director, Crowe LLP)	Europe
PAOs (21)		
72.	Accountancy Europe (AE)	Europe
73.	Association of Chartered Certified Accountants (ACCA)	Global
74.	Chartered Accountants Australia and New Zealand (CAANZ)	Asia Pacific
75.	Chartered Accountants Ireland (CAI)	Europe
76.	CPA Australia	Asia Pacific
77.	European Federation of Accountants and Auditors for SMEs (EFAA)	Europe

No.	Respondent	Region
78.	Global Accounting Alliance (GAA)	Global
79.	Ibracon - Brazil Institute of Independent Auditors	South America
80.	Institute of Certified Public Accountants of Kenya (ICPAK)	Africa
81.	Institute of Certified Public Accountants of Uganda (ICPAU)	Africa
82.	Institute of Chartered Accountants in England and Wales (ICAEW)	Global
83.	Institute of Chartered Accountants of Ghana	Africa
84.	Institute of Singapore Chartered Accountants (ISCA)	Asia Pacific
85.	International Federation of Accountants (IFAC)	Global
86.	Instituto Nacional de Contadores Públicos de Colombia (INCP)	South America
87.	Malaysian Institute of Accounts (MIA Malaysia)	Asia Pacific
88.	Malta Institute of Accountants (MIA Malta)	Europe
89.	Nordic Federation of Public Accountants (NRF)	Europe
90.	Pan African Federation of Accountants (PAFA)	Africa
91.	The Malaysian Institute of Certified Public Accountants	Asia Pacific
92.	Virginia Society of CPAs Audit and Accounting Committee	North America
Others (4)		
93.	ASK KSA Consulting Inc.	North America
94.	EITMED	Asia Pacific
95.	Saudi Awwal Bank (SAB)	Middle East
96.	Trust Consulting and Training LLC	Middle East

Appendix 3

Respondents' Comments to the Questions in the Online Survey and the Related Agenda Items Where the Summary and Detailed Comments are Presented

Question	Topic	Section of this Agenda Paper	Agenda Paper:	
			Excel Analysis	NVivo Word Analysis
For All Stakeholders				
Question 6 Question 7 Question 7A*	Overall Questions	Part B	Agenda Item 8-A.2	Agenda Item 8-B.1
Question 8 Question 9	Perceived Benefits	Part C	Agenda Item 8-A.3	Agenda Item 8-B.2
For Firms, JSS, PAOs, Regulators and Others				
Question 10 Question 11 Question 12	Scalability and Proportionality	Part D-I	Agenda Item 8-A.4	Agenda Item 8-B.3
Question 18 Question 18A* Question 18B* Question 19 Question 20	Risk Assessment Procedures	Part D-II	Agenda Item 8-A.6	Agenda Item 8-B.3
Question 22 Question 22A* Question 22B* Question 23 Question 24	Responses to the Assessed Risks of Material Misstatement and Overall Evaluation	Part D-III	Agenda Item 8-A.7	Agenda Item 8-B.3
Question 14 Question 15 Question 16 Question 26 Question 27 Question 28	Other Matters	Part D-IV	Agenda Items 8-A.5 and 8-A.8	Agenda Item 8-B.3
Question 13 Question 17 Question 21	Suggestions	Part F	N/A	Agenda Item 8-B.5

Question	Topic	Section of this Agenda Paper	Agenda Paper:	
			Excel Analysis	NVivo Word Analysis
Question 25 Question 29				
Survey for Preparers and Issuers of FS, Including TCWG and Users of FS				
Question 10 Question 11	Impacts	Part E	Agenda Items 8-A.9 and 8-A.10	Agenda Item 8-B.4
Question 12	Suggestions	Part F	N/A	Agenda Item 8-B.5

* These questions were conditional on responses to a previous question.

Appendix 4

Highlights from the SAC session on PIR of ISA 540 (Revised)

Introduction

1. On April 27, 2026, the Project Team facilitated a discussion with SAC members to obtain a deeper understanding of the impact of ISA 540 (Revised) on entities and the external reporting ecosystem, focusing on the SAC members' insights and experiences.
2. The SAC is a multi-stakeholder group that is diverse in terms of geography, gender and functional backgrounds, and includes individuals who are or represent users that make decisions on the basis of financial and non-financial information (such as investors, financial analysts, lenders or creditors), preparers and professional accountants in the public and not-for-profit sectors, TCWG, international and national regulatory and inspection communities, national or international standard-setting organizations, the accountancy profession internationally (including a focus on smaller practices), governmental and other international organizations, and academics.

Discussion Topics

3. SAC members were invited to share their views regarding the following matters:
 - (a) Work focus by auditors on auditing accounting estimates and related disclosures, including understanding and testing of controls related to accounting estimates;
 - (b) Interactions and communications between auditors and preparers and TCWG, as well as, for users and others, through transparency in the auditor's report; and
 - (c) Quality of financial reporting related to accounting estimates, including how accounting estimates and related disclosures are prepared.

Key Feedback Received from SAC Members

Work Focus by Auditors

4. Many SAC members acknowledged that ISA 540 (Revised) has driven more robust audit work. They have observed an increased audit effort and documentation, with auditors performing more extensive procedures and exercising greater professional skepticism. Although, this has not always translated into visible improvements in the quality of financial reporting.
5. SAC members emphasized challenges related to scalability and proportionality, particularly for simpler estimates and smaller entities, and encouraged consideration of more tailored or proportionate application guidance.
6. SAC members noted potential duplication and overlap with ISA 315 (Revised 2019), particularly in the area of risk assessment, and encouraged further alignment to enhance efficiency and clarity. They acknowledged that the release of ISA 540 (Revised) in advance of ISA 315 (Revised 2019) may be at the heart of the duplication and overlap.
7. SAC members noted that auditing accounting estimates continues to be reported in inspection reports as a key finding. Some questioned and suggested that additional guidance and examples may be beneficial for auditors to support the consistent application of the standard.

Communication, Transparency and Financial Reporting

8. SAC members highlighted ongoing concerns about boilerplate disclosures and lack of transparency in auditor reporting, noting that both entities' disclosures in the financial statements and communication in auditor reports often lack entity-specific insights.
9. SAC members observed that a vast majority of Key Audit Matters address accounting estimates, which raises questions about concentration in this area and the interaction between ISA 540 (Revised) and ISA 701.¹⁰

¹⁰ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*