

Post-Implementation Review of ISA 540 (Revised)¹ – Respondents' Detailed Comments Related to Issues or Challenges of the Online Survey

Given the length of the document, the Project Team has added hyperlinks to the questions and themes included in this Agenda Item. Readers can click on the relevant question or theme to move directly to the corresponding section of the document, making it easier to navigate between sections without having to scroll through the full document.

This Agenda Item presents the 71 respondents'² detailed comments on selected narrative questions included in **Section V – Potential Issues or Challenges Related to ISA 540 (Revised)** of the [online survey](#). The comments are presented by significant themes and stakeholder groups. Because the feedback was analyzed by significant themes, individual respondents may have raised comments relating to more than one theme; accordingly, the number of comments presented under the individual themes may not equal the total number of respondents. The feedback received was analyzed and summarized in **Part D of Agenda Item 8**.

Selected Narrative Questions about Potential Issues or Challenges Included in Section V – Potential Issues or Challenges Related to ISA 540 (Revised)

- (a) [Question 11](#): Briefly describe these or any other issues or challenges you encountered or observed related to *scalability and proportionality*.
- (b) [Question 15](#): Briefly describe these or any other issues or challenges you encountered or observed related to *exercising professional skepticism*.
- (c) [Question 18A](#):³ Provide additional input, if any, about any issues or challenges regarding the *interaction of ISA 540 (Revised) with ISA 315 (Revised 2019)* in relation to risk assessment procedures and the identification and assessment of risks of material misstatement for accounting estimates.
- (d) [Question 19](#): Briefly describe these or any other issues or challenges you encountered or observed related to *risk assessment procedures* and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.
- (e) [Question 23](#): Briefly describe these or any other issues or challenges you encountered or observed related to *responding to risks of material misstatement* and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.
- (f) [Question 27](#): Briefly describe these or any other issues or challenges you encountered or observed related to *communications, specialized skills or knowledge (including using the work of an auditor's expert) and documentation*.

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

² These questions were only presented to Accounting Firms, Jurisdictional and Other Standard Setters (JSS), Professional Accountancy Organizations (PAOs), Regulators and Audit and Assurance Oversight Bodies, Academia and Others.

³ This question was prompted only to certain respondents, depending on the rating selected to question 18 on the survey.

Question 11

Briefly describe these or any other issues or challenges you encountered or observed related to scalability and proportionality.

Significant Themes

- [A. Benefits](#)
- [B. Challenges Related to Scalability and Proportionality](#)
- [C. Challenges Related to Risk Assessment Procedures](#)
- [D. Challenges Related to the Auditor's Response](#)
- [E. Other Challenges](#)
- [F. Suggestions for Course of Actions](#)
- [G. No Specific Responses](#)

A. Benefits

6. Accounting Firms

BDO International Limited (BDO)

ISA 540 (Revised) is conceptually capable of being applied proportionately, supported by its emphasis on inherent risk factors and the spectrum of inherent risk, which provide a strong foundation for tailoring audit procedures based on the complexity and uncertainty of estimates.

B. Challenges Related to Scalability and Proportionality

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

From a regulatory perspective, we have observed instances where auditors applied a largely uniform approach to auditing accounting estimates, without adequately scaling their procedures to reflect the complexity, estimation uncertainty, and inherent risk associated with different estimates. In some cases, this resulted in audit procedures that were insufficiently responsive to the risks involved. When auditing Expected Credit Losses (ECL) a simplified approach was applied despite the nature and complexity of the estimate warranting more robust procedures or the involvement of an expert. Similarly, in some small and medium-sized audit firms, limitations in experience and technical expertise contributed to audit procedures that were not appropriately tailored to the assessed risks.

Auditors, however, noted that while ISA 540 (Revised) is intended to be scalable, they have experienced moderate challenges in applying the standard proportionately to smaller and less complex entities. In practice, the level of documentation, risk assessment, and audit evidence expected can sometimes appear excessive for simple accounting estimates with low estimation uncertainty.

Chamber of Auditors of Azerbaijan Republic

Some minor challenges may arise in applying ISA 540 (Revised) proportionately in engagements involving simpler accounting estimates, where the requirements may sometimes be perceived as relatively extensive compared to the level of complexity

Independent Regulatory Board for Auditors (IRBA)

Specific Challenges Experienced by Auditors of Smaller Entities:

Management may not adequately calculate estimates in smaller entities, due to inadequate skills in the financial reporting teams. This could indicate a gap in available guidance for preparers of financial statements.

We also observed that auditors may experience challenges in obtaining audit evidence for accounting estimates in smaller entity audits, where there may be less formal estimation processes and limited documentation prepared by management to support the reporting of estimates in accordance with the financial reporting standards.

In such circumstances, auditors may struggle to obtain sufficient appropriate audit evidence or determine the alternative impact on the audit. For example,

Over relying on discussions with management or, where auditors develop their own point estimate or range due to limitations in management's estimate, struggling to manage the threat to independence by inadvertently assuming management responsibility.

The consequential impact may include:

1. Estimates that are not identified (scope and applicability of ISA 540 (Revised));
2. Management imposed limitations; and
3. Threats to independence.

These challenges highlight practical scalability and proportionality challenges in applying ISA 540 (Revised).

Scalability for “middle-ground” estimates

In addition to challenges in smaller entity audits, our inspections observed practical difficulty in applying ISA 540 (Revised) to “middle-ground” estimates that are neither simple nor highly complex. In such cases, auditors may struggle to appropriately scale procedures, resulting in either over-auditing or insufficient work effort, particularly where estimation uncertainty is moderate but still requires judgement.

Lesotho Institute of Accountants

ISA 540 (Revised) presents several implementation challenges, particularly in achieving appropriate scalability and proportionality across different types of audits and accounting estimates. Audit teams may sometimes over-document simple estimates—such as depreciation, basic accruals, leave pay, inventory provisions, or straightforward impairment assessments— in order to demonstrate compliance, even where the risk does not justify extensive procedures. In practice, it can be difficult to determine what constitutes sufficient audit work for less complex estimates, especially where methodologies or audit tools prompt extensive responses regardless of complexity.

The standard requires significant professional judgment in determining the nature, timing, and extent of procedures, which can be challenging for less experienced staff without detailed guidance. This may result

in increased time spent on risk assessment and documentation, particularly in lower-risk or lower-fee engagements, and can also lead to inconsistent application of proportionality across audit teams.

In smaller entities, the absence of formalised processes for making estimates further complicates auditors' ability to understand and document management's approach. In addition, some audit firms—particularly smaller practices—may face capacity constraints where specialist expertise is required to assess more complex estimates and valuation models.

Overall, while ISA 540 (Revised) is designed to be scalable, achieving consistent, proportionate application in practice remains a key challenge.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

In practice, auditors may perform procedures that are proportionate to the nature and complexity of the estimate, however, demonstrating compliance through documentation often requires a level of effort that may not always appear commensurate with the risk. Nevertheless, the principles-based approach of the standard generally allows for appropriate scaling of audit procedures, and the benefits of improved audit quality and consistency largely outweigh these implementation challenges.

Saudi Central Bank (SAMA)

Smaller audit firms supervised by SAMA face disproportionate implementation burdens when applying the inherent risk factor requirements to less complex accounting estimates. The standard's scalability provisions, while present, are not always clearly understood or consistently applied across different firm sizes.

UK Financial Reporting Council (UK FRC)

ISA 540 (Revised) was designed to be applied in a scalable and proportionate manner, and we consider that it is possible to do so. Some stakeholders have commented that the revised standard was designed to respond to the auditing challenges posed by the introduction of expected credit loss models in IFRS 9, and it can therefore be hard to scale of the assurance of less complex reporting. We are also aware that some audit firms believe that more guidance, not necessarily within the standard itself, would be helpful to further illustrate how the standard can be applied in a proportionate manner for less complex estimates. • There is awareness of the IAASB's examples outside of the standard but there is still a concern that the standard is difficult to apply proportionately, particularly for less complex estimates.

- In particular, some practitioners have experienced difficulties in applying paragraph 13 of the revised standard in a scalable manner to accounting estimates in the context of small- and medium-sized entities. We have been told that scaling the procedures to obtain the understandings required by this paragraph is challenging for commonly encountered complex accounting estimates prepared by entities with less sophisticated control environments. These additional procedures may not add to the intuitive judgements that an auditor has already made with respect to risks and appropriate responses on their initial encounter with these estimates.
- In addition, some audit firms also believe that it would be helpful to have additional guidance on how to apply the standard to more complex estimates such as modelled expected credit losses.

The FRC has not adopted the IAASB's ISA for Audits of Financial Statements of Less Complex Entities. However, it has launched a campaign to support UK SMEs, part of which includes the development of a Practice Note to help support the proportionate audit of small- and medium-sized entities. This was issued in

March 2026 and includes guidance in relation to the audit of accounting estimates. A copy of the Practice Note can be obtained here:

https://media.frc.org.uk/documents/Practice_Note_28_Guidance_for_audits_of_small_and_medium_sized_entities_chldawRe.pdf.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

In performing our Canadian activities to inform our AASB response to the IAASB's public consultation survey (the "survey"), we received differing perspectives, most notably between practitioners auditing higher risk estimates/entities with more sophisticated operations/etc. and those that encounter lower risk accounting estimates/entities with unsophisticated operations/etc. Scalability issues were most often raised by the latter.

Issues

1. Scalability and proportionality of the risk assessment requirements:

- Difficult to determine the nature, timing and extent of risk assessment procedures, work effort, and documentation, that is required for lower/very low risk accounting estimates (i.e., circumstances described in ISA 540.A20) when ambiguous terms are used in requirements or application material:
 - o "to the extent necessary to obtain audit evidence as a basis for risk assessment" (ISA 540.13) or
 - o "may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances" (ISA 540.A20)
- Unclear as to what to do when management's process for making accounting estimates, including control activities within that process, is missing or not sufficiently robust (ISA 540.13(e)-(j)).

Source: (SME Practitioners).

2. Missing scalability and proportionality in other requirements and AM:

- Inconsistent terminology used to refer to "simpler" accounting estimates throughout ISA 540: The use of different terminology throughout the application material may be leading to confusion as to when/how "the nature, timing and extent of the risk assessment and further audit procedures required by this CAS will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement" (ISA 540.3), for a 'lower risk/lower inherent risk' accounting estimate. Different terminology includes:
 - o Estimation uncertainty may be very low (para. 3)
 - o The accounting estimates may be subject to, or affected by, estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree (para. A20)
 - o Simple 'accounting estimate' (para. A63/A68)
 - o (Accounting estimates where) inherent risk is closer to the lower end of the spectrum of inherent risk (para. A69)
- The scalability of work-effort found in risk assessment procedures of "to the extent necessary..." (ISA 540.13) is missing from the risk response procedures (ISA 540.18).

- Scalability is missing with respect to what matters to 'communicate with TCWG, Management, or Other Relevant Parties' (ISA 540.38, A146) regarding "simpler" accounting estimates.

Source: (SME Practitioners).

Australian Auditing and Assurance Standards Board (AuASB)

We understand that scalability continues to be a challenge for smaller entities with simple estimates with low estimation uncertainty, particularly with regard to the risk assessment. The auditor is required to address each of the aspects of obtaining an understanding in paragraph 13 of the revised standard in order to identify and assess the risks of material misstatement. See also responses to questions 7 and 19 below on scalability.

Group of Latin American Accounting Standards Setters (GLASS)

1. Excessive Internal Control in Estimates: The risk in estimates stems from inherent factors (subjectivity, data, assumptions) and not from internal control failures, especially in SMEs or simple estimates. Controls only matter in complex/routine estimates. The standard should leave the identification of controls to the auditor's judgment.

2. Limited Retrospective Review: Requiring retrospective testing for every estimate is excessive. It should only be applied to those with high inherent risk. For others, a general review confirming that they remain low risk is sufficient. 3. Excessive Documentation: In practice, paragraph 39.b obliges auditors to document how each risk factor affects each estimate, generating an excessive and unnecessary workload that contradicts the standard's own guidance.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Some engagement teams are unable to demonstrate scalable, proportionate work scope and audit documentation aligned to the assessed level of audit risk, leading to a similar extent of work and documentation regardless of the risk assessment, resulting in under- or over-auditing.
- Although audit procedures are scaled down in practice for simpler accounting estimates, there remains ambiguity regarding the extent of audit documentation needed to be regarded as sufficient for compliance with the Standard, particularly from regulators' perspective. The IAASB's illustrative examples for auditing simple and complex accounting estimates do not clearly demonstrate how the extent of audit procedures and documentation should be scaled. Moreover, these illustrative examples are based on different subject matters (inventory impairment versus property, plant and equipment impairment) which makes "apple to apple" comparison difficult.
- The IAASB's illustrative examples for auditing ECL accounting estimates are overly complex and focused solely on the banking and financial institutions industry.

Institut der Wirtschaftsprüfer (IDW)

In connection with our response to question 18(b), the differentiation of clearly insignificant estimation uncertainty that we highlight in our response below creates particular challenges for small and medium-sized practices (SMPs), whose client base typically consists predominantly of small less complex entities (LCEs). In many LCE audits, accounting estimates are relatively straightforward and involve limited estimation uncertainty. Nevertheless, auditors may feel compelled to perform and document the full range of ISA 540 (Revised) risk assessment procedures, even where the risk of material misstatement is low on

the spectrum of inherent risk. This can result in a duplication of procedures already performed under ISA 315 (Revised), increase redundant documentation effort, and reduce the scalability of the standard. As a consequence, audit effort may become disproportionate to the nature and complexity of the estimate and the risks involved, creating unnecessary implementation burdens for SMPs without a corresponding improvement in audit quality. Furthermore, there is an increased danger that overemphasis on lower-risk accounting estimates may distract auditors from higher-risk areas.

In addition, we observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is, understandably, not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is actually applied in practice.

See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.

Instituto Mexicano de Contadores Públicos (IMCP)

Since the implementation of the ISA 540 revised we have observed that engagement teams went over and continue to face a series of challenges to balance the amount of audit work in relation to the different types of estimates and such work also varied depending on the size of the entity and the related industry. They might have had and still have the perception that all estimates needed a great deal of audit evidence regardless of its complexity. The risk of over auditing is a fact. More structured audit firms provided additional support with global methodologies and more detailed training which helped to balance the amount of effort (scalability) but for SMP the challenges were greater. As of now, we consider that the requirements and EEM included in the LCE standards have alleviated these concerns.

Japanese Institute of Certified Public Accountants (JICPA)

While scalability and proportionality of the Revised Standard are conceptually understandable, their abstract nature means that inconsistencies (variations) in the judgments of individual auditors still exist as hurdles along the path to applying them in practice.

However, accounting estimates, by their nature, are based on the high level of auditors' professional judgment, even when considering scalability and related factors. Given that the objectives of the Revised Standard are becoming widely recognized and integrated into practice, this challenge is expected to improve as the practice matures in future.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

SCALABILITY CHALLENGES

We have heard mixed views on scalability. Some stakeholders noted that the standard appropriately highlights scalability and works in practice.

ISA 540 (Revised) was informed by matters impacting large and complex entities, for example the expected credit loss accounting standard. Many smaller entities do not have estimates of that nature.

Many found scalability and proportionality to be a key challenge. These concerns related to scaling the requirements to:

- smaller entities with simple estimates
- less complex estimates for larger entities
- an estimate that is multiples of materiality for which any misstatement is more likely to be material versus an estimate that is very close to the materiality threshold.

Practitioners from small practices commented that they apply the same approach regardless of the complexity of the estimate and have asked for additional case studies to be provided illustrating the application of principles in real-life scenarios. There are challenges in applying risk assessment at the assertion level for estimates when the spectrum of risk differs at a more granular level. For example, in a discounted cash flow model, the level of risk may be assessed to be different for the cash flows and the discount rate. However, both the cash flows and discount rate may impact the same assertions. Stakeholders highlighted the challenge of applying the requirements over the methods, assumptions and data that may impact the same assertion, but for which the inputs have very different risk profiles.

Royal Netherlands Institute of Chartered Accountants (NBA)

The ISA is quite extensive for straight forward estimates. Especially for risk assessment and that quite some detailed steps have to be taken before it can be concluded that there is limited work for a "simple" estimate.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

The findings of the audit quality inspections over (Small and Medium Practices (SMPs)) regarding, for instance, the lack of adequate documentation, the failure to conduct retrospective reviews of management's judgements and assumptions, and the inappropriate testing of the inputs, suggest the need for additional scalable guidance in the standard.

South Africa Institute of Chartered Accountants (SAICA)

Small Entity Considerations – Management may not have mature or complex processes to determine estimates in smaller audits, requiring auditors to rely heavily on professional judgment. Limited corroborating evidence and valuation inputs pose practical challenges, particularly in fair value assessments.

It has been noted that there has been a significant increase in the use of management experts due to the standard, as disparities initially were noted with estimates calculated by management relative to estimates calculated by auditor experts which resulted in management using experts to calculate estimates.

Retrospective reviews at times have not been considered by auditors and has been noted as a common finding by EQRs.

The requirements by the standard are clear and understandable and auditors need to factor all the requirements in the standards in their audit procedures with specific reference to SMPs. However, for the audits of less complex entity, there is a risk that strict adherence to the requirements of the standard could lead to "over-auditing", resulting in the reperformance of the procedures already included in ISA 315 (Revised 2019). This is an area in ISA 540 (Revised) that we believe could benefit from integration with ISA 315 (Revised 2019) as could result in appropriate scalability of the requirements. In applying ISA 540 (Revised), "scalability success" is in the standard placing less onerous requirements on those engagements where estimation uncertainty is on the lower end of the inherent risk spectrum.

Templates provided by software providers such as CaseWare, Draftworx provide guidance on how auditors can perform audit procedures especially for SMPs. It has been noted that SMPs struggle when they have to create their own audit procedures to address the standard requirements. This results in overreliance on service providers without sufficient professional judgement being applied by practitioners.

6. Accounting Firms

Baker Tilly International (BKTi)

Although ISA 540 (Revised) is designed to be scalable, there are notable challenges in achieving proportional application in practice, particularly for less complex entities. The enhanced requirements especially in relation to understanding management's processes, evaluating controls, and documenting inherent risk factors and the spectrum of risk, have led to a significant increase in time and effort devoted to planning and risk assessment for estimates. In some cases, this has resulted in procedures and documentation that are not fully proportionate to the level of estimation uncertainty or risk, creating a more compliance-driven approach.

These challenges are more pronounced in SME audits, where entities often lack mature control environments or formalised documentation (e.g., process flowcharts), making it difficult to apply the standard in a scalable manner. In such environments the benefit to audit quality is significantly outweighed by the increased effort required. While methodologies and training initiatives have sought to support scalability, there remains inconsistency in how auditors interpret and apply a proportionate approach, suggesting that further practical guidance, particularly for low-risk or routine estimates would assist in achieving more consistent and efficient application across engagements.

BDO International Limited (BDO)

In practice, however, scalability remains a recurring challenge. Engagement teams often apply a similar depth of procedures and documentation across both higher and lower risk estimates, resulting in effort that is not always proportionate to the risk of the estimate. The requirement to explicitly assess and document risk factors and link them to audit responses can lead to extensive documentation, even where risks are on the lower end of the spectrum.

Additional factors further complicate proportionate application, including:

- Limited entity or TCWG understanding and poor-quality supporting documentation, which can increase audit effort and create fee pressures
- Over-reliance on specialists, potentially reducing focus on underlying processes and controls

Despite these challenges, where professional judgment is applied effectively, auditors are generally able to vary the nature, timing, and extent of procedures appropriately, and only minor practical issues are experienced in some cases.

Overall, while ISA 540 (Revised) provides a robust framework for scalability, its effective and efficient application in practice remains challenging. In some instances, the entity's approach to material estimates in less complex entities are simplistic and subjective, which makes the application of ISA 540 (Revised) difficult.

Cristian Emmanuel Munarriz (Practitioner)

Issue 1:

I think the risk assessment procedures related to the understanding of internal control are excessive, especially for simple accounting estimates. In contrast to transactions (i.e. sales, purchases, collections, payments, etc) and management of assets (i.e. cash, inventory management, etc), where the deficiencies in internal controls are very relevant because they may provide an opportunity for fraud, for estimates the risks are more related to inherent risk factors than to internal control deficiencies. While robust understanding of the methods, assumptions, source of data and estimation uncertainty is very important to appropriate assessment of the inherent risk factors, in my view, the specific control activities (paragraph 13.i) do not always have the same importance.

There are some routinary but complex estimates (e.g. expected credit losses in financial institutions, or asset retirement obligations in extractive industries) where control activities may be more relevant as the model used may be highly dependent on specific controls related to business operations (e.g. regarding credit risk assessment, specific financial projections and forecasts, etc). But the vast majority of accounting estimates (especially in SMEs) are based on simple methodologies and less subjective assumptions, especially routinary estimates (like depreciation of PP&E, incurred credit losses models for trade receivables, usual contingencies for which use of external lawyers is used, NRV of inventories, FV of quoted equity instruments, etc), for which the control activities are less relevant due to the limited opportunity for fraud related to internal control deficiencies and because a controls reliance approach is rarely used for these estimates.

There are also other estimates with complex methodologies and subjective assumptions but that are performed only in certain situations (e.g. IAS 36 impairment testing triggered by indicators of impairment, FV of equity settled share based payments, etc), or that are performed on a routine basis but only for financial reporting purposes (e.g. FV of unquoted equity instruments). These estimates may be more reliant on management review controls (instead of routine control activities), which are very difficult to assess and document, and are generally not relevant for audit purposes, except if the auditor is required to issue a separate opinion on internal control, because the deficiencies in such controls do not increase opportunity for fraud (as they are already interrelated with inherent risk factors, like subjectivity and management bias) and they are generally inefficient to test in a controls reliance approach.

Therefore, I think only relevant control activities should be identified under paragraph 13.i) in line with paragraph 26.a) of ISA 315. The identification of relevant control activities for the estimates to which is considered relevant should depend on auditor's judgment.

Issue 2:

I think the stand-back requirements in paragraph 33-35 are overkill for every single accounting estimate. I think this requirement should be limited to estimates with higher inherent risk. For other estimates, I think only paragraph 33.a) may be relevant to assess if the risk assessment conclusion for these estimates is still consistent with audit evidence obtained in other areas (i.e. to double check that these estimates are still low/medium inherent risk). For these other estimates, I think it is unlikely that application of paragraph 33.b) and c) will have a different outcome than before.

Issue 3

I think that there may be application issues regarding audit documentation in the paragraph 39.b). Despite the comment in paragraph A150 that auditors are not required to document how every inherent risk factor was taken into account in the risk assessment in relation to each accounting estimate, I think that, in practice, this is usually the case, resulting in excessive documentation

Crowe Solutions for Professional Consultancy

While ISA 540 (Revised) is scalable and applicable to all entities, its practical application in audits of smaller and less complex entities can be challenging and may result in requirements that are not always proportionate to the nature and simplicity of the estimates involved, particularly in jurisdictions where ISA for LCEs has not yet been adopted.

Deloitte Touche Tohmatsu Limited (DTTL)

Scalability is an important aspect of ISA 540 (Revised) as risks related to accounting estimates exist along a spectrum, with some estimates involving limited estimation uncertainty and others involving significantly greater complexity and judgment. While auditors and firms have developed methodologies that recognize this spectrum of risk, challenges remain in applying the standard in a sufficiently proportionate manner to estimates at the lower end of the spectrum. In particular, for estimates with low estimation uncertainty, the effort required to comply with the standard can in some cases appear disproportionate to the nature and assessed risk of the estimate. In some instances, the concepts in this standard may not be relevant when estimation uncertainty is negligible. In such cases, the concepts in other ISAs may be sufficient (e.g., ISA 330 or ISA 520).

Ernst & Young Global Limited (EY)

ISA 540 (Revised) appropriately requires that audit procedures be scalable in accordance with the identified and assessed risks of material misstatement for an accounting estimate, particularly the level of estimation uncertainty. Nevertheless, its detailed

requirements are primarily designed for more complex accounting estimates, which can complicate their application to simpler accounting estimates with low estimation uncertainty, complexity and subjectivity (i.e., accounting estimates assessed at the low end of the spectrum of inherent risk). It is challenging for auditors to prepare documentation that is both proportional to the assessed risks associated with the accounting estimate and sufficient to demonstrate compliance with the requirements of the standard. Consequently, auditors may sometimes conduct more extensive procedures and compile excessive documentation for straightforward accounting estimates, which goes against the standard's objective of promoting a proportionate audit effort.

Other practical challenges associated with proportionate application of ISA 540 (Revised) include:

- Although the application material specifies that many accounting estimates do not require use of auditor's experts, the standard's tone may nevertheless suggest expert involvement is necessary in many cases.
- Applying ISA 540 (Revised) to accounting estimates embedded within significant accounts or disclosures can be challenging. Because the standard applies to each estimate, scalability issues can arise when multiple estimates are contained in a single significant account or disclosure, and the assessed risks of material misstatement differ for these estimates or from the risks related to other aspects of the related account or disclosure.
- The requirement for the retrospective review of accounting estimates is challenging to apply proportionately to accounting estimates with low estimation uncertainty (refer also to our responses to Question 19 and 21).
- Management's process and documentation for less complex accounting estimates tends to be less formal and, although it may be sufficient to achieve the requirements of the applicable financial reporting

framework, it might not address all aspects anticipated under the standard, which can make gathering the necessary evidence more challenging.

Forvis Mazars Global Limited (Mazars)

As noted above, the standard is not effective for less complex entities and also requires consideration of all estimates, which can mean that the audit team loses sight over the key estimates and can focus their audit efforts in this direction.

Grant Thornton International Ltd (GTI)

As noted in our response to Question 6, we believe the introduction of inherent risk factors and enhanced risk assessment procedures have had a positive impact on the quality of work performed. However, we continue to see challenges in execution, as described in our response to Question 7A. Furthermore, we continue to hear that teams are designing responses for all accounting estimates, regardless of risk assessment, in accordance with paragraph ISA 540 (Revised) paragraph .18 because they are more focused on the amount of the estimate and not the underlying risk (or lack thereof).

As noted in our response to Question 7A, we developed our own guidance to provide examples about how to address areas where we commonly receive questions. One such area is related to smaller entities with estimates that have one or more estimate that involves the use of methods, models, assumptions, or data that have an element of complexity in a given year (for example, there is estimation uncertainty but it's not high uncertainty). Because the ISA for LCE standard scopes out entities with complex estimates, auditors are required to apply ISA 540 (Revised). We found that, for these entities, ISA 540 (Revised) requires audit procedures that may go beyond what the entity does and there is not sufficient application material to guide the team in how to scale their response similar to that found in other ISAs

Kia Atlas (Director, RSM)

Level 3 fair values are automatically treated as complex and high risk — but in practice, not all Level 3 valuations are equally complex, and it's often unclear when a valuation specialist is truly required. There is no clear practical boundary in ISA 540 (Revised) that helps auditors determine:

1. When complexity truly justifies specialist involvement
2. When a well-trained audit team can reasonably perform the work

Therefore, this creates inconsistency across firms and regulators. Under ISA 540 (Revised), scalability is supposed to depend on complexity, subjectivity, estimation uncertainty, susceptibility to management bias. But for Level 3 instruments, the label itself drives behavior, firms may default to a defensive approach, regulators often expect specialist involvement and engagement teams struggle to justify a "non-specialist" approach. This resulted normally in over-auditing in simpler cases, defensive documentation, and inconsistent inspection outcomes.

KPMG International Limited (KPMG)

We believe that the most significant challenges in applying the revised standard relate to scalability and proportionality matters. While we acknowledge that the revised standard drives a more rigorous and targeted approach to auditing estimates, in particular, for complex estimates that are subject to a higher degree of estimation uncertainty, we believe that it is overly calibrated to such complex estimates. As a

result, there are significant challenges in scaling the requirements, in particular, the risk assessment requirements, when auditing less complex estimates with low estimation uncertainty.

We believe that the revised standard is intended to be scalable to all types of estimates, noting that paragraph 3 states "The nature, timing and extent of the risk assessment and further audit procedures required by this ISA will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement. For certain accounting estimates, estimation uncertainty may be very low, based on their nature, and the complexity and subjectivity involved in making them may also be very low. For such accounting estimates, the risk assessment procedures and further audit procedures required by this ISA would not be expected to be extensive."

The application material provides further guidance regarding scalability, e.g. at paragraph A20, the standard acknowledges that "the accounting estimates may not require significant judgements, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to, or affected by, estimation uncertainty, complexity, subjectivity or other inherent risk factors to a lesser degree and there may be fewer identified controls in the control activities component. If so, the auditor's risk identification and assessment procedures are likely to be less extensive and may be obtained primarily through inquiries of management with appropriate responsibilities for the financial statements, such as simple walk-throughs of management's process...". Furthermore, we acknowledge that the Illustrative Examples guidance, in describing the auditor's approach and understanding for a less complex estimate, demonstrates ways in which the auditor's procedures may be less extensive, both in terms of risk assessment and further audit procedures.

However, this guidance within the standard itself is overall limited, high level and conceptual, with the result that it is unclear to auditors as to the extent to which they may scale certain of the risk assessment procedures. The detailed example of a less complex estimate within the supplementary material still contains elements of complexity and does not sufficiently illustrate how certain aspects of the standard may be scaled, in particular, in relation to documenting auditor decisions and judgements.

Risk Assessment Procedures – Obtaining an Understanding

Of particular concern is the fact that the standard and related supplementary guidance together indicate that the auditor is required to address each of the aspects of obtaining an understanding as set out at paragraph 13 of the revised standard, in order to identify and assess the risks of material misstatement in respect of each estimate, irrespective of the characteristics of that estimate, i.e., including when this is a less complex estimate. We consider that this may result in an audit work effort that is unnecessarily onerous and "over-engineered" in respect of less complex estimates as the standard requires the auditor to obtain an overly detailed understanding that is disproportionate to the objective of the procedures, being identification and assessment of risks of material misstatement. We do not consider that this is aligned with the fundamental principle that an audit is risk-based, and instead, the requirements appear overly prescriptive. This presents pervasive challenges to auditors as many financial statement line items are, or include, such estimates.

Concerns arise, in particular, in relation to risk assessment procedures at paragraph 13(h)(ii) regarding the understanding that is required in respect of how management identifies, selects, designs and applies, as relevant, the methods, assumptions and sources of data used to make the estimate, including consideration of the need for changes, alternatives, uncertainties, possible measurement outcomes, and how management addresses these, including selecting a point estimate. These considerations may not always be proportionate to the audit of less complex estimates, and, furthermore, the related documentation requirements, in particular, the requirement to document key elements of such understanding, may drive an unduly burdensome documentation process that does not enhance audit quality. Furthermore, the

requirements may drive a compliance mindset for the auditor, and may even detract from audit procedures that would better address the estimate in question.

In connection with the above, the requirements in respect of exercising professional skepticism, such as in challenging management regarding their selection and application of methods, assumptions and data, and consideration of alternatives, create challenges in respect of less complex estimates. Refer to Question 15 for further information.

The below examples help to illustrate how the standard does not enable the auditor to appropriately scale the risk assessment procedures in line with the inherent risk, and the degree to which the estimate is affected by inherent risk factors, when performing audit procedures in respect of a less complex estimate:

- When auditing a "simple" depreciation estimate that uses the 'straight line' method, complexity and estimation uncertainty are likely to be low, with estimation uncertainty primarily driven by subjectivity relating to the determination of useful economic lives and residual values. Despite an experienced auditor being able to make this judgment relatively quickly, and to have clear upfront expectations as to the methods and data used to make the estimate, the revised standard drives the auditor to focus significant work effort on performing risk assessment procedures to obtain a detailed understanding of the estimate, as described by paragraph 13, including matters such as how management identifies the relevant methods, assumptions or sources for data, understands the degree of estimation uncertainty, including considering the range of possible measurement outcomes, and how management addresses estimation uncertainty.
- When auditing financial instruments that are "level 1" in the fair value hierarchy, the auditor is similarly directed to understand the method, assumptions and data in respect of the valuation estimate of the financial instruments. While this may be appropriate when these financial instruments are highly material relative to other assets held by the reporting entity (in which case, even low levels of estimation uncertainty may have a material impact), when that is not the case, the work effort required to perform risk assessment is disproportionate, and is driven by the fact that the financial instruments are an estimate, rather than because there is a real possibility of risks of material misstatement relating to estimation uncertainty.

Risk Assessment Procedures – Retrospective Review

We also highlight that there are scalability and proportionality challenges in relation to performing a retrospective review as required by paragraph 14 of the revised standard. For further information regarding our concerns, and our recommendations to address these, refer to our response to Questions 18B and 21.

Luna Space Financial Company

Minor challenges mainly relate to understanding how detailed procedures for auditing complex estimates should be scaled for smaller operations, but no significant obstacles were encountered.

PricewaterhouseCoopers International Limited (PwC)

We observe that the standard's baseline requirements applicable to all estimates are considered too onerous for less complex, lower-risk estimates. In cases where the entity has less complex estimates, the level of effort and related documentation is generally seen as excessive and not sufficiently differentiated from the work effort necessary for highly complex estimates or those for which a significant risk has been identified. For example, ISA 540 (Revised) requires an evaluation and documentation of inherent risk factors for all estimates, even where such factors may not meaningfully be present in non complex estimates. Similarly, the stand back requirement seems to have limited impact on the quality of audit work for less complex estimates involving limited management judgement and where no contradictory evidence exists.

We also observe that, due to the professional judgement involved in auditing estimates, there can be different perspectives about, and a lack of consistency in, the appropriate extent of audit procedures and documentation. Although ISA 540 (Revised) acknowledges that significant judgement may be involved, differences in how auditors assess non complex estimates in comparable circumstances (for example, as low versus medium risk) can lead to substantially different audit responses and inconsistency, which can give rise to comparability questions by audited entities and regulators.

RSM International Limited (RSM)

We observe that, while ISA 540 (Revised) is designed to be scalable and capable of application across a broad spectrum of accounting estimates, moderate challenges remain in achieving consistent and proportionate application in practice.

In particular, we believe that the standard operates effectively in the context of complex estimates and estimation processes when the linkage between estimation uncertainty, inherent risk factors, and the nature, timing and extent of audit procedures is more readily operationalised. However, greater difficulty arises in applying the standard to simpler, lower risk estimates. In such cases, practitioners may be uncertain as to what level the requirements can be scaled, which may result either in an over application of the standard or in the use of informal approaches that may not be clearly aligned with the structure of the standard.

This challenge suggests a disconnection between the intended scalability of the standard—supported by concepts, such as the spectrum of inherent risk and the requirement to tailor audit procedures to the assessed risks of material misstatement—and its ability to be consistently and effectively implemented in lower complexity scenarios. We do not believe this is indicative of a fundamental deficiency in the standard itself but rather reflects practical difficulties in applying the principles-based requirements into proportionate audit responses where estimation uncertainty is lower.

We also note that these observations appear to be consistent across jurisdictions and are not confined to specific regulatory or practice environments. While the standard is conceptually scalable, further support in demonstrating how its requirements can be applied in a proportionate manner to simple, low risk estimates would assist auditors in applying ISA 540 (Revised) more effectively in practice.

Wing Tam (Principal, Forvis Mazar)

Having to use the same amount of resources for a small, simple project as for a large, complex one. Guidance that does not clearly explain how to tailor the work

7. Professional Accountancy Organizations

Accountancy Europe (AE)

We observed a number of challenges related to scalability and proportionality in the application of ISA 540 (Revised). While the standard appears to work more effectively for complex accounting estimates, including those involving significant estimation uncertainty or sophisticated valuation techniques, some requirements are perceived as disproportionate for simple or low-risk estimates. In such cases, auditors may perform procedures or documentation that provide limited additional audit value and may, in practice, exceed the level of work performed by management itself.

Association of Chartered Certified Accountants (ACCA)

Stakeholders reported challenges in applying the scalability and proportionality principles embedded in ISA 540 (Revised). While there is broad support for the risk-based approach introduced by the standard, questions remain regarding how that approach should be applied in practice across accounting estimates with differing levels of complexity and risk.

A recurring observation was that the effort required to comply with certain aspects of the standard may not always appear proportionate for estimates involving limited complexity and low levels of estimation uncertainty. In these circumstances, auditors may perform extensive procedures to obtain and document an understanding of management's estimation process even where the estimate itself presents a relatively low risk of material misstatement. Some stakeholders questioned whether the resulting audit effort is always commensurate with the underlying risk.

Stakeholders also noted practical challenges in applying the spectrum of inherent risk concept where different inputs and judgments contribute to a single accounting estimate. In some cases, individual elements of an estimate may exhibit varying levels of risk, making it difficult to determine how those differences should influence the overall risk assessment and the design of audit responses. Additional practical guidance in this area would assist auditors in applying the risk assessment framework more consistently.

Feedback further indicated that there is uncertainty regarding the extent to which audit procedures may be adapted for accounting estimates assessed as presenting lower risks of material misstatement. This issue was raised most frequently in the context of smaller entities and less complex estimates, where auditors may be reluctant to scale procedures despite the standard's intention that the nature, timing and extent of work should reflect the circumstances of the engagement.

Chartered Accountants Australia and New Zealand (CAANZ)

There are challenges in applying the risk assessment approach at the assertion level for estimates when the spectrum of risk is at a more granular level (e.g. may be higher in cashflows but lower in the discount rate), but the method, assumptions and data may impact the same assertion. This is an area where more guidance may be useful. Practitioners would like to see more guidance covering complex estimates and have suggested case study formats would be useful.

We have also heard that the standard needs greater clarity in relation to how it is intended to be applied to estimates where the risk of material misstatement is assessed as acceptably low or at the lower end of the spectrum of acceptable risk. This is particularly important for SMEs and SMPs where estimates used by the entities are not necessarily complex. The standard is intended to be scalable, but the feedback indicates that auditors may apply the same process for all estimates, regardless of the complexity and risk assessment. Guidance on scaling the requirements for estimates where the risk of material misstatement is low or at the lower end of the scale, would be welcomed.

CPA Australia

A key challenge is that, although ISA 540 (Revised) is intended to be scalable, this is not always clear in practice. For simpler estimates, especially in SME environments, auditors can find it difficult to determine what level of work and documentation is proportionate. This is particularly challenging where management processes and controls are informal. In practice, difficulty often arises in calibrating:

- the depth of understanding of management's process;

- the extent of control-related work;
- the linkage between inherent risk factors and audit response; and
- the extent of overall evaluation and documentation required.

By contrast, complex estimates can sometimes be easier to calibrate because the need for extensive work is more obvious. In our view, this is mainly an implementation issue rather than a flaw in the standard's principles. Additional guidance and practical examples showing proportionate application and documentation for simpler estimates would be helpful.

European Federation of Accountants and Auditors for SMEs (EFAA)

EFAA is aware of minor issues related to scalability and proportionality, particularly for SMPs auditing less complex entities. While ISA 540 (Revised) is intended to be scalable, some practitioners perceive the requirements and related documentation expectations as burdensome when auditing simple accounting estimates with low estimation uncertainty. In particular, the risk assessment requirements require auditors to perform and document a number of detailed procedures before concluding that a "simple" estimate warrants only limited further audit work.

Global Accounting Alliance (GAA)

In connection with our response to question 18(b), the differentiation of clearly insignificant estimation uncertainty that we highlight in our response below creates particular challenges for small and medium-sized practices (SMPs), whose client base typically consists predominantly of small and medium-sized entities (SMEs), and where management processes may be informal and controls less formalized

In many SME audits, accounting estimates are relatively straightforward and involve limited estimation uncertainty. Nevertheless, auditors may feel compelled to perform and document the full range of ISA 540 (Revised) risk assessment procedures, even where the risk of material misstatement is low on the spectrum of inherent risk. This can result in a duplication of procedures already performed under ISA 315 (Revised), increase redundant documentation effort, and reduce the scalability of the standard. As a consequence, audit effort may become disproportionate to the nature and complexity of the estimate and the risks involved, creating unnecessary implementation burdens for SMPs without a corresponding improvement in audit quality.

However, we believe there are broader scalability challenges, beyond those noted above for the audits of SMEs. The challenge is to apply the standard in a way that responds to the assessed risks and the nature of the estimate while avoiding unnecessary work for lower-risk estimates. For example, we

observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is applied in practice.

Finally, we believe documentation challenges exist from the complexity, duplication and lack of scalability of ISA 540 (Revised) because auditors may feel compelled to document more extensively than is proportionate to demonstrate compliance with the standard. See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.

Ibracon - Brazil Institute of Independent Auditors

Clarifying requirements and providing additional guidance on scalability application would help auditors understand the extent of required risk assessment and related audit procedures, enabling them to develop targeted responses to the risks of material misstatement, varying from a simple to complex accounting estimates.

Institute of Certified Public Accountants of Kenya (ICPAK)

Excessive effort for simple accounting estimates.

Heavy documentation requirements.

Difficulty applying the spectrum of inherent risk consistently.

Tendency toward over-auditing due to regulatory concerns.

Greater implementation burden on smaller firms and less complex entities.

Duplication with risk assessment requirements in ISA 315 (Revised 2019)

Institute of Chartered Accountants in England and Wales (ICAEW)

The introduction of the three inherent risk factors and the inherent risk spectrum, with accompanying scalability guidance, has improved focus on high-risk areas.

However, the level of prescription of some of the risk assessment requirements remains a challenge. Paragraph 14 is difficult to scale, particularly for very simple AEs where estimation uncertainty is low. There may be little value in performing a retrospective review of these estimates and management themselves may have deemed it unnecessary. The risk of over-auditing generally, including simpler estimates, should not be ignored by standard-setters. The auditor is required to gain a detailed understanding of management processes for preparing estimates, no matter how simple. This is of little value when the approach to testing is for the auditor to develop their own estimate rather than testing management's processes.

These issues are not only relevant to audits at opposite ends of the scale. The standard does not sufficiently distinguish between entities with estimates of differing complexities within the same sector, such as those relating to multinational banks and small, local financial institutions.

In such cases, auditors may find themselves performing more work than management.

Institute of Chartered Accountants of Ghana

The smaller firms, particularly in developing countries do not have enough resources, in terms of personnel, expertise and financial to undertake estimations for complex transactions like what the bigger firms could do. The cause a situation where estimates done by management or those charge with governance, in relation to transactions, would not be independently verified by auditors

The challenge has been with minor firms' inability to raise the needed funds to carry out training on how to implement and use the standard fully.

Institute of Singapore Chartered Accountants (ISCA)

Issues observed generally arise from the execution of the audit, rather than from limitations in the standard itself. In particular, the effective application of ISA 540 (Revised) depends on the performance of robust risk

assessment procedures and the appropriate tailoring of audit responses to address the nature and extent of the identified risks.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

The application of professional judgment may vary across audit engagements, individual practitioners, and the complexity of the entity.

Lack of consistency in the audit procedures performed, whereby differences in the auditor's level of experience may result in either excessive or insufficient audit effort.

Audit effort that may be disproportionate to the size of the entity and the nature and complexity of the accounting estimate.

The need for specialized expertise when evaluating complex accounting estimates, requiring the involvement of experts who may not be available within all firms and whose involvement may be costly.

Challenges related to the availability and reliability of historical information in entities with large volumes of transactions. This may affect the quality of the information on which the accounting estimate is based.

SMP may lack the infrastructure required to implement ISA 540 (Revised), particularly with respect to documentation requirements and the involvement of experts in the evaluation of complex accounting estimates.

International Federation of Accountants (IFAC)

IFAC is aware of some significant challenges in applying ISA 540 (Revised) in a consistently scalable and proportionate way. This is an area where simplification could create real benefits.

The most significant proportionality challenges arise for relatively simple estimates with low estimation uncertainty. A key practical concern is that, for very simple estimates, the auditor may in some cases appear to perform more work than management in developing the estimate. The standard may lead to application in a way that drives extensive work effort in understanding and documentation of management's process, even where estimates have low uncertainty or where the auditor's response is to develop their own estimate rather than test management's process.

These challenges are particularly relevant for SMPs and SME audits, where management processes may be informal and controls less formalized. However, IFAC views this as a broader scalability issue, not solely an SMP issue. The challenge is to apply the standard in a way that responds to the assessed risks and the nature of the estimate while avoiding unnecessary work for lower-risk estimates.

IFAC also notes that documentation can be a scalability challenge. Even where the audit procedures themselves are appropriately scaled, auditors may feel compelled to document more extensively than is proportionate to demonstrate compliance with the standard. Further clarity on what proportionate documentation looks like for simple or lower-risk estimates would therefore be helpful.

Malaysian Institute of Accountants (MIA Malaysia)

While the standard is designed to be applied to audits of all sizes, the documentation and procedural requirements can feel burdensome for low-risk or smaller engagements. Although the standard does not explicitly mandate excessive documentation, firms often adopt comprehensive templates to mitigate inspection risk. This results in:

- mechanical documentation of inherent risk factors

- formalised standback assessments
- detailed linkage of risk assessment to procedures, even where estimation uncertainty is low.

Malta Institute of Accountants (MIA Malta)

The most significant challenge in practice relates to achieving appropriate scalability and proportionality when applying ISA 540 (Revised) to simple or low-risk estimates. While the standard operates effectively for complex estimates with high estimation uncertainty, audit teams often struggle to scale the requirements down for routine accruals and straightforward estimates. In such cases, the application can become overly documentation-heavy, mechanistic, and difficult to operationalise, with certain aspects perceived as overly complex or lacking clarity. This can lead to a mismatch between the effort performed and the underlying risk, and may encourage a checklist-driven approach rather than a genuinely risk-based one. There is also a need for clearer articulation of expectations at the lower end of the estimation spectrum, including stronger linkage to core risk-based audit principles. For these simpler estimates, additional guidance would be beneficial to support a more proportionate approach, potentially allowing auditors, based on professional judgment and risk, to apply procedures more akin to those used for other non-estimate balances where appropriate.

Nordic Federation of Public Accountants (NRF))

We observe a number of challenges related to scalability and proportionality in the application of ISA 540 (Revised).

The standard appears better suited to complex accounting estimates, including those involving significant estimation uncertainty or sophisticated valuation techniques. The main challenges arise when applying the standard proportionately to simpler or lower-risk estimates. This can result in audit procedures and documentation that provide limited additional audit value relative to the risks involved. In some cases, particularly for simpler estimates with low estimation uncertainty, auditors may perform procedures and documentation that appear more extensive than the work performed by management itself, reflecting challenges in applying the standard in a proportionate manner.

The extent of these challenges also differs depending on the applicable financial reporting framework. Entities applying IFRS may face more complex estimation requirements, whereas entities applying local GAAP frameworks often encounter less complex estimates, reflecting a greater reliance on historical cost accounting. As a result, certain requirements in ISA 540 (Revised), which appear largely designed with IFRS-based reporting in mind, may be difficult to apply proportionately in other reporting environments.

Pan African Federation of Accountants (PAFA)

The impacts are generally positive, strengthening audit quality and accountability. However, smaller firms and those auditing SMEs face challenges in applying complex requirements, particularly where clients lack robust estimation processes. The Board should consider proportionality mechanisms to ease application in non PIE audits.

The Malaysian Institute of Certified Public Accountants

While the standard is designed to be applied to audits of all sizes, the documentation and procedural requirements can feel burdensome for low-risk or smaller engagements. Although the standard does not explicitly mandate excessive documentation, firms often adopt comprehensive templates to mitigate inspection risk. This results in:

- (i) mechanical documentation of inherent risk factors
- (ii) formalised standback assessments
- (iii) detailed linkage of risk assessment to procedures, even where estimation uncertainty is low

Virgina Society of CPAs Audit and Accounting Committee

Auditors must consistently document their conclusions in these areas.

8. Others

ASK KSA Consulting Inc.

Many SMPs audit SMEs that have very simple estimates. While the standard is scalable, it still requires extensive documentation of risk assessment processes and risk responses that are not always applicable in the circumstances. However if these procedures are not performed, or documented, practice inspectors raise significant deficiencies which then become a problem for these firms. So in the end, they spend a lot of time on procedures that do not make a difference

EITMED

The scalability principles embedded in ISA 540 (Revised) have generally been effective in enabling the standard to be applied across a wide range of accounting estimates. However, some practical challenges remain. In particular, auditors may exercise differing levels of judgment when determining how the spectrum of inherent risk should affect the nature, timing, and extent of

audit procedures. In addition, smaller and less complex engagements may sometimes find it challenging to demonstrate compliance with all documentation and risk assessment requirements in a manner that is proportionate to the complexity of the estimate. Further practical guidance and illustrative examples could help promote greater consistency in application across firms and engagements.

Saudi Awwal Bank (SAB)

I have observed the said issue to a moderate extent. it may results in documentation and procedures that appear disproportionate to to the complexity and risk of certain accounting estimates.

C. Challenges Related to Risk Assessment Procedures

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Auditors also highlighted difficulties in consistently applying concepts such as inherent risk factors, the separate assessment of inherent and control risk, and stand-back evaluations across engagements of varying size and complexity.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

The extent of these challenges also differ depending on the applicable financial reporting framework. For example, entities applying IFRS may face significantly more complex estimation requirements than entities using local GAAP frameworks that rely more heavily on historical cost accounting. We also observed

challenges arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). In practice, this can create duplication in risk assessment concepts, documentation processes and audit methodologies, particularly as ISA 540 (Revised) introduced concepts that were later incorporated more broadly into ISA 315 (Revised 2019). This may result in inefficiencies and additional documentation burden, including where audit software requires separate documentation processes under both standards.

D. Challenges Related to Auditor's Response

7. Professional Accountancy Organizations

Institute of Certified Public Accountants of Uganda (ICPAU)

Some of the requirements in the standard like setting an auditor's point of range are difficult to implement irrespective of the size of the standard. This led to the low levels of compliance with the requirements of the standard.

E. Other Challenges

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

Estimates in valuations and going concern issues

Housam Halawa (Practitioner)

Estimates in valuations and going concern issues

F. Suggestions for Course of Actions

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

They indicated that additional practical guidance, illustrative examples, and implementation support tailored to less complex entities would assist in achieving greater consistency and efficiency in the application of the standard.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We therefore suggest that additional implementation support, including practical examples and case studies, could help demonstrate how the requirements of ISA 540 (Revised) may be applied proportionately across a range of estimates. Clarification in this area may also help reduce the risk of audit effort being concentrated on lower-risk estimates at the expense of areas presenting greater risks of material misstatement.

European Federation of Accountants and Auditors for SMEs (EFAA)

Additional practical guidance and examples demonstrating the proportionate application of the standard in such circumstances would be beneficial.

G. No Specific Responses

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

International Organization of Securities Commissions (IOSCO) Committee 1

4. Regulators and Audit and Assurance Oversight Bodies

Canadian Public Accountability Board (CPAB)

Chamber of Auditors of Azerbaijan Republic

We have not encountered any problems during the implementation of the standard.

6. Accounting Firms

BKR ISIK Consulting (International Auditor Company)

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

Not applicable

ELVI Audit FINANS LLC

Natiq Əliyev (Practitioner)

Qeydim yoxdur.

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Zamin Huseynov (Director, Crowe LLP)

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

8. Others

Trust Consulting and Training LLC

No serious difficulties

Question 15

Briefly describe these or any other issues or challenges you encountered or observed related to *exercising professional skepticism*.

Significant Themes

- [A. Benefits](#)
- [B. Challenges Related to Scalability and Proportionality](#)
- [C. Challenges Related to the Auditor's Response](#)
- [D. Other Challenges](#)
- [E. Suggestions for Course of Actions](#)
- [F. No Specific Responses](#)

A. Benefits

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

ISA 540 (Revised) has helped reinforce the exercise of professional skepticism in the audit of accounting estimates. This includes supporting greater challenge of management's judgments on the methods, assumptions and data used in developing estimates.

Chamber of Auditors of Azerbaijan Republic

Relevant work is being carried out on the issue mentioned in the formation of the opinion during the audit.

Independent Regulatory Board for Auditors (IRBA)

Practical challenges in consistently applying professional scepticism The standard has strengthened scepticism in practice.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

ISA 540 (Revised) has strengthened the emphasis on professional skepticism;

5. Jurisdictional and Other Standards Setters (JSS)

Instituto Mexicano de Contadores Públicos (IMCP)

Feedback received identifies that the audit teams are having more robust discussions with management and those charged with governance regarding accounting estimates and the way they are determined and measured.

Japanese Institute of Certified Public Accountants (JICPA)

We believe that the requirements and application materials aimed at enhancing auditors' exercising professional skepticism under the Revised Standard are becoming increasingly integrated into audit practice.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

We heard that enhanced risk assessment procedures may have strengthened auditors' ability to identify potential indicators of management bias at a detailed level. This has increased the importance of applying the stand-back requirements appropriately to make an overall assessment.

6. Accounting Firms

BDO International Limited (BDO)

ISA 540 (Revised) provides a clear and robust framework for exercising professional skepticism, including explicit requirements to challenge management, consider contradictory evidence, and identify indicators of bias in accounting estimates. This has contributed to improvements in how skepticism is applied, particularly through more structured approaches such as stand-back evaluations and enhanced focus on management bias.

KPMG International Limited (KPMG)

As noted in our response to Question 9, we believe that the revisions to the standard have strengthened the auditor's application of professional skepticism in relation to accounting estimates.

PricewaterhouseCoopers International Limited (PwC)

ISA 540 (Revised) has contributed positively by explicitly elevating the importance of professional scepticism in auditing accounting estimates.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We generally consider that ISA 540 (Revised) has been successful in promoting greater professional scepticism when auditing accounting estimates.

Chartered Accountants Australia and New Zealand (CAANZ)

In general, we believe that the standard has helped practitioners to exercise professional scepticism including challenging management's judgements, considering potential biases and obtaining both corroborative and contradictory evidence.

CPA Australia

ISA 540 (Revised) clearly strengthens the framework for exercising professional skepticism when auditing accounting estimates and related disclosures, including through stronger language around challenge, management bias, contradictory evidence and "stand-back" evaluation.

International Federation of Accountants (IFAC)

IFAC considers that ISA 540 (Revised) has helped reinforce the exercise of professional skepticism in the audit of accounting estimates. This includes supporting greater challenge of management's judgments and focusing auditors on the methods, assumptions and data used in developing estimates.

B. Challenges Related to Scalability and Proportionality

6. Accounting Firms

Cristian Emmanuel Munarriz (Practitioner)

Stand-back

I think the stand-back requirements in paragraph 33-35 are overkill for every single accounting estimate. I think this requirement should be limited to estimates with higher inherent risk. For other estimates, I think only paragraph 33.a) may be relevant to assess if the risk assessment conclusion for these estimates is still consistent with audit evidence obtained in other areas (i.e. to double check that these estimates are still low/medium inherent risk). For these other estimates, I think it is unlikely that application of paragraph 33.b) and c) will have a different outcome than before

KPMG International Limited (KPMG)

However, we highlight that challenges may arise in practice relating to the application of professional skepticism when performing audit procedures in respect of estimates as a result of the scalability matters described above, because the standard appears to drive the auditor to question and challenge management regarding its estimation process, in respect of each of the elements of the process, i.e., the methods, assumptions and data selected/applied. However, as the risks of material misstatement related to estimation uncertainty for less complex estimates are often isolated to the significant assumptions, it may not be necessary or appropriate, when performing audit procedures in respect of an less complex estimate, for auditors to question and challenge management in respect of their selection and application of the method and data, and consideration of alternatives (e.g., where management has used the "straight line" method in respect of depreciation, and the data is sourced from the fixed assets register).

RSM International Limited (RSM)

More broadly, some of the challenges observed in exercising professional scepticism are linked to the application of the standard across estimates of varying complexity. As noted in our response to Question 11, while ISA 540 (Revised) is effective for complex estimates, practitioners may find it more difficult to operationalise an appropriately sceptical approach for simple, lower risk estimates. This may result in either an over-application of procedures or uncertainty as to the extent of challenge required, reflecting a practical application issue rather than a deficiency in the standard.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

In some areas, auditors may also face difficulties in identifying appropriate benchmarks or obtaining access to specialists and experts with the necessary expertise to evaluate complex estimates, models or assumptions. This can be particularly challenging for smaller firms or in highly specialised industries. In certain sectors, the pool of available experts may be relatively limited, making it more difficult to obtain alternative perspectives or challenge management assumptions effectively.

CPA Australia

In practice, however, auditors can still face difficulties in applying these expectations consistently, particularly when challenging management's judgments. These challenges can arise for both less complex and more complex estimates, although they tend to manifest differently.

For less complex estimates, the risk is that audit procedures may become routine and compliance-driven, focusing on recalculation or consistency with prior periods without sufficiently challenging the continued appropriateness of management's assumptions or lack of documentation demonstrating professional scepticism.

In contrast, for more complex estimates, the difficulty is more often in critically evaluating sophisticated models, highly judgmental assumptions and specialist inputs without over-relying on management or experts.

C. Challenges Related to Auditor's Response

6. Accounting Firms

RSM International Limited (RSM)

A key challenge relates to appropriately challenging management's judgements, particularly where management makes use of experts. In such circumstances, auditors may place reliance on the work of management's experts, which can create uncertainty as to the extent to which underlying assumptions and methodologies should be independently challenged. While the standard appropriately emphasises the need to 'challenge' and 'question' management's assumptions, applying this in practice—especially in technically complex areas—can require significant judgement and may contribute to moderate challenges in this area.

7. Professional Accountancy Organizations

Malaysian Institute of Accountants (MIA Malaysia)

One of the key challenges auditors face in auditing accounting estimates arises when management uses a management's expert in developing the estimate. While ISA 540 requires the auditor to evaluate whether information obtained from management or management's expert is relevant and reliable (ISA 540.22), the standard does not explicitly distinguish the expected nature and extent of audit procedures when assumptions and data are developed internally by management or its expert, as compared to situations where the expert independently sources observable market data. This can create practical difficulties in tailoring an appropriate audit response that is proportionate to the assessed risks of material misstatement (ISA 540.18).

Further challenges arise where management's valuation specialist determines significant assumptions primarily based on professional judgment or personal experience, rather than on observable inputs or clearly supportable data. Although ISA 540 requires auditors to evaluate the reasonableness of significant assumptions and whether they are consistent with the applicable financial reporting framework (ISA 540.24(a)), auditors may encounter difficulty in effectively challenging such assumptions when supporting rationale is insufficiently documented. This is particularly problematic for estimates involving high estimation uncertainty or subjectivity, where management bias risk is elevated (ISA 540.16, ISA 540.34).

In practice, auditors may also find it challenging to apply the requirements related to professional skepticism and management bias assessment (ISA 540.25, ISA 540.34) when the specialist's assumptions are justified primarily by experience, as opposed to verifiable evidence. The application material acknowledges that management's experts may use judgment in selecting methods, assumptions, and data (ISA 540.A116–A118), but provides limited guidance on how auditors should robustly challenge those judgments when observable corroborative evidence is lacking. As noted in ISA 540.A123–A124, this can complicate the auditor's evaluation of whether the assumptions reflect reasonable alternatives and whether the estimate adequately captures estimation uncertainty. Auditors may also face challenges in determining what constitutes a risk-based and proportionate audit response when management's experts are used, particularly in sectors requiring specialised technical expertise (e.g., the oil and gas industry). In practice, the assessment of the nature and extent of audit procedures can be subjective at this stage and may lead to inconsistent application.

As a result, auditors may face increased difficulty in concluding whether sufficient appropriate audit evidence has been obtained (ISA 540.35) and in demonstrating a well supported challenge to the management's expert, particularly in inspections or regulatory reviews where judgments must be clearly evidentially grounded.

D. Other Challenges

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Persistent Application Challenges

11. Prevailing macroeconomic conditions have significantly heightened estimation uncertainty, thereby increasing the risk of material misstatement in accounting estimates. These conditions include fluctuating interest rates, persistent inflationary pressures, tightening credit markets and ongoing geopolitical tensions. In such environments, the exercise of professional skepticism and robust challenge of management assumptions is particularly critical.

12. Recurring deficiencies observed in practice include:

- Insufficient challenge of management's judgments, particularly for highly subjective estimates or those susceptible to management bias.
- Inadequate consideration of contradictory audit evidence and insufficient documentation of stand back assessments.
- Insufficient challenge of the appropriateness of management's significant assumptions, including evidence over how the auditor considered the outcome of previous estimates.

Botswana Accountancy Oversight Authority (BAOA)

However, we recognise that professional skepticism is influenced by factors beyond the requirements of the standard itself, including experience and competence of engagement teams, the quality of supervision and review, firm methodologies, and the broader audit environment.

One of the key challenges in exercising professional skepticism under ISA 540 (Revised) is balancing an appropriately questioning mindset with the practical realities of management-developed estimates, particularly in smaller entities where formal models, controls and supporting documentation may be limited. Auditors may encounter difficulties in sufficiently challenging highly subjective assumptions, forward-looking information and management bias especially in areas such as expected credit losses, fair value estimates and going concern assessments. In some cases, there may also be limited availability of external corroborative evidence to independently validate management assumptions.

Another emerging challenge relates to the increasing use of complex and technology-enabled estimation techniques, including models supported by artificial intelligence. Such models may make it more difficult for auditors to understand, evaluate, and challenge management's methods, assumptions, data inputs, and outputs, particularly where the underlying processes have a "black box" nature and lack transparency. In this regard, further non-authoritative implementation guidance would be beneficial to assist auditors in applying professional skepticism when auditing complex, model-driven, or AI-supported estimates. Such guidance could include practical considerations for evaluating the reliability and appropriateness of these models,

identifying indicators of management bias, and determining when specialised skills or knowledge may be needed.

Canadian Public Accountability Board (CPAB)

Common challenges identified through our inspections include:

- Not requesting management to address the level of estimation uncertainty. [ISA 540.27] • Insufficient challenge of management's judgments, particularly where estimates involve significant subjectivity or are sensitive to management bias. [ISA 540.22-29]
- Inadequate consideration of contradictory audit evidence and insufficient documentation of stand-back assessments. [ISA 540.18, .33, .34]

One example of these application challenges relates to the use of auditor-developed point estimates. CPAB's inspection findings continue to indicate that auditors may default to developing a point estimate without first obtaining a sufficient understanding of how management identified and addressed estimation uncertainty. This can detract from the auditor's obligation to sufficiently understand and challenge management's chosen methods, assumptions, and data, as required by ISA 540 (Revised). Where management's process is not adequately evaluated, reliance on auditor-developed point estimate may also limit the auditor's ability to identify contradictory audit evidence, indicators of management bias, or deficiencies in management's judgments. These challenges are more likely to arise in circumstances where management has limited expertise or where estimation processes and controls are less developed.

These issues suggest that while the requirements of ISA 540 (Revised) are clearer, translating those requirements into consistently robust audit execution remains difficult in practice.

Chamber of Auditors of Azerbaijan Republic

Some minor challenges may arise in exercising professional skepticism when auditing accounting estimates, particularly in situations involving complex or subjective inputs, or when considering potential management bias. These challenges are generally addressed by the guidance and examples provided in ISA 540 (Revised).

Independent Regulatory Board for Auditors (IRBA)

While the standard contains clear references to professional scepticism and is generally understood conceptually, challenges persist in consistently operationalising, evidencing and documenting professional scepticism in practice. These challenges appear to stem less from deficiencies in the standard itself and more from practical factors such as:

- insufficient understanding of the client's estimates and underlying risks; • limited industry knowledge;
- insufficient experience;
- weak capture of challenge and evidence on the audit file; • practical constraints including late preparation of estimates by management, complexity, volatility of inputs and audit timeline pressures; and
- the application of relevant ethical requirements.

Overall, ISA 540 (Revised) provides adequate and sufficiently clear framework for professional scepticism, with the greater need being implementation support rather than further standard-setting.

Inspection findings also indicate that professional scepticism is often not evidenced through sufficient challenge of management's assumptions, including limited consideration of contradictory evidence and indicators of management bias. In many instances, auditors appear to rely on management representations or internally generated data without adequate corroboration.

Lesotho Institute of Accountants

The main challenges encountered or observed relate to applying professional skepticism consistently when accounting estimates involve significant judgment, complex inputs or uncertainty about future events. It can be difficult to appropriately challenge management's assumptions where independent evidence is limited or where management has used experts or models.

Identifying management bias can also be challenging because bias is often subtle and may only become evident when assumptions are considered collectively or compared across periods. In addition, audit teams may sometimes focus more on corroborative evidence and may need to be more deliberate in identifying and evaluating contradictory evidence.

These challenges are often more pronounced where management's documentation is limited, estimates are complex, or specialist knowledge is required.

At times, auditors lack sufficient expertise or confidence to effectively challenge management's judgments, particularly where there is no clear benchmark for comparison. There is also a risk of overreliance on management's explanations, which at times weakens our professional skepticism.

In addition, unconscious bias and familiarity threats may be reducing auditors' objectivity.

At times, auditors place greater emphasis on evidence that supports management's estimates while overlooking or insufficiently investigating contradictory evidence. Gathering sufficient contradictory evidence can be difficult, particularly in areas involving significant uncertainty or limited external data. Maintaining an objective evaluation of all available evidence requires a high degree of professional skepticism and judgment.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

However, exercising an appropriately skeptical mindset can be challenging where accounting estimates are supported by complex models, specialist inputs, or significant management judgment. In such circumstances, auditors may find it difficult to effectively challenge assumptions without access to specialised expertise or robust external benchmarks.

Additionally, there can be practical challenges in balancing professional skepticism with maintaining constructive working relationships with management, particularly when estimates are highly subjective. Despite these challenges, the standard has generally encouraged more rigorous evaluation of management's assumptions and enhanced the quality of audit evidence obtained.

Saudi Central Bank (SAMA)

SAMA's oversight activities indicate that auditors have improved their professional skepticism overall, but challenges remain in consistently challenging management's complex assumptions, particularly in actuarial valuations and financial instrument fair value estimates within the insurance sector

UK Financial Reporting Council (UK FRC)

A common finding for audit inspections is that practitioners sometimes do not display adequate levels of professional scepticism, which in turn may be linked to a need for more to be done to develop and embed a culture of scepticism and challenge at the level of the firm. However, this is not primarily an issue relating to the drafting of ISA 540 (Revised).

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Issues

- Difficult to exercise professional skepticism and demonstrate that it was exercised in relation to the accounting estimate (ISA 540.8), when:
 - o The accounting estimates are subject to a greater degree of estimation uncertainty, or other inherent risk factors;
 - o There is greater susceptibility to misstatement due to management bias or other fraud risk factors.
- Difficult to challenge management regarding the appropriateness of the assumptions used (ISA 540.9), particularly when using the work of a management's expert (i.e., information from an actuary or a valuation expert) Source: (Practitioners).

Australian Auditing and Assurance Standards Board (AuASB)

- Where management engages a management's expert, auditors need to be cautious about bias (both auditor's and management's) towards the work of such experts.
- Using management's own internal forecasts for impairment calculations has an inherent bias.
- The Australian securities and audit regulator (ASIC) has noted through audit inspection findings reports that auditors regularly fail to critically assess indicators of possible management bias when estimates repeatedly turn out to be overly optimistic or consistently favour the company's targets. Practitioners find challenges in determining the extent of documentation required.

Group of Latin American Accounting Standards Setters (GLASS)

The standard requires evaluating management bias at an aggregate (global) level, not individually. However, in large or group audits, the work is fragmented among different individuals or component auditors. This leads to a lack of clarity on how to coordinate and unify the findings.

We suggest including an explicit requirement for engagement (and group) partners to lead this discussion in team planning and closing meetings, given their comprehensive understanding of the entity.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- 14(a) Appropriately challenging management's judgments used in making accounting estimates, particularly when they involve complex or subjective inputs: These situations present heightened challenges, as comparable market data is often insufficient or unavailable and the appropriate extent of challenge expected of auditors remains unclear.
- 14(c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory: It is challenging to weigh supporting versus contradictory audit evidence and determining the

appropriate next steps to resolve such inconsistencies. Besides, obtaining all relevant evidence can be difficult in practice. For example, in a property valuation, assumptions are often based on the experience and expertise of management or professional valuers, which makes them difficult to challenge, while other available evidence for further comparison or evaluation may be limited. Even where reasonable efforts have been made, it can still be challenging to demonstrate to regulators that all relevant audit evidence has been obtained.

Institut der Wirtschaftsprüfer (IDW)

Although there are issues in practice in terms of challenging management's judgements, we believe that these are inherent to the nature of accounting estimates and related disclosures. We consider that the standard already appropriately addresses these issues and is not deficient in this respect.

Care should be taken when interpreting inspection findings in this respect, as the cause of findings typically does not indicate deficiencies in standards.

Instituto Mexicano de Contadores Públicos (IMCP)

Nevertheless, the level of tension during those meetings has increased because of the more detailed questions raised by auditors. Management and TCWG may continue to have the perception that auditors want to find errors, and this creates, in certain cases, frictions during such encounters. However, open discussions have been very welcomed, and help prepared the entities with better documentation and support from the involved parties for future audits.

Japanese Institute of Certified Public Accountants (JICPA)

However, accounting estimates, by their very nature, often depend heavily on management's judgment and forecasts, and sometimes lack sufficient documented basis from the outset. In practice, auditors often need to exercise professional skepticism and conduct additional verification and digging to obtain sufficient and appropriate audit evidence, thereby clarifying the basis for estimates.

This can sometimes lead to difficulties, such as requiring additional time and effort. To minimize such difficulties, we believe that further promotion of understanding of audit estimates among management is necessary.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Stakeholders queried whether professional scepticism can be meaningfully strengthened through the standard, or whether it mainly develops through training, experience and an enquiring mindset.

Regulators have identified improvement in how auditors challenge management and management's experts. However, they also continue to note weaknesses in documenting judgements and obtaining sufficient appropriate audit evidence, particularly when an auditor uses an expert.

We heard that auditors are generally obtaining both corroborative and contradictory evidence. However, contradictory evidence can be difficult to find, particularly where no active market exists. There was general agreement that additional emphasis on the requirement to take into account all relevant evidence obtained, whether corroborative or contradictory, is particularly helpful relevant in volatile environments.

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

- o Valuations of businesses and properties

Baker Tilly International (BKTi)

A key challenge in exercising professional scepticism relates to the insufficient depth of challenge over management's assumptions, particularly in complex or judgmental areas such as external valuations. Audit teams may rely on management or third-party experts without adequately assessing the relevance, reasonableness, and consistency of underlying assumptions, or sufficiently challenging whether they reflect current market conditions and entity-specific factors.

There are also challenges in identifying and responding to indicators of management bias, with auditors sometimes focusing on confirming the "reasonableness" of estimates rather than actively considering alternative assumptions or contradictory evidence. In addition, documentation does not always clearly demonstrate how contradictory evidence has been identified and evaluated, suggesting a tendency to place greater reliance on corroborative evidence.

Overall, while ISA 540 (Revised) has strengthened expectations around professional scepticism, consistent application in practice remains dependent on auditor experience, training, and engagement culture, and continues to be an area of focus in both regulatory inspections and internal quality reviews.

BDO International Limited (BDO)

However, practical challenges remain, particularly in complex or highly judgmental areas. Applying professional skepticism consistently can be difficult where:

- engagement teams have limited understanding of complex models,
- there is too great a reliance on management explanations or specialist input, or
- observable data is limited, reducing the availability of objective evidence.

Behavioural and cultural factors also play a role, including:

- reluctance to challenge specialists or management
- tension between rigorous challenge and maintaining client relationships, and
- inconsistent depth of scrutiny of key assumptions.

A recurring theme from outreach is that challenges for implementing ISA 540 often arise not from the standard itself, but from the quality of inputs to the audit. In particular, weak or poorly supported estimates prepared by management can make it more difficult for auditors to effectively apply professional skepticism and obtain sufficient appropriate evidence.

In addition, while clearer requirements have led to improvements in how the work on estimates is documented, they also often lead to extensive effort to evidence the application of professional skepticism, including the consideration of contradictory evidence, which does not always enhance the quality of the underlying judgments.

Overall, ISA 540 (Revised) has strengthened the framework and expectations for professional skepticism, but its effectiveness in practice depends on:

- the capability and confidence of auditors the quality of management-prepared estimates and supporting documentation

- behavioural factors that are not fully addressed by standards alone.

Further improvements could be achieved through enhanced entity preparedness and better documentation of management judgments, alongside continued focus on auditor training and examples to aid consistent application.

Cristian Emmanuel Munarriz (Practitioner)

Management bias

As explained in paragraph A133, analysis of management bias is supposed to be performed at an aggregate level rather than at the individual accounting estimate level. As the detailed work for each accounting estimate is generally performed by different individuals (especially in large engagements), I think there is a lack of clarity about the need of coordination of this analysis at engagement team level. This issue may be even more prevalent in group audits where some accounting estimates (e.g. goodwill impairment testing) are audited directly by the group auditor and other estimates are audited by component auditors. I think further guidance about this requirement may be useful. Potentially adding a specific requirement for engagement partners and group engagement partners to take responsibility for this assessment to be specifically discussed in engagement team discussion and wrap-up meetings may be useful because they generally have the overall knowledge of the audited entity.

Crowe Solutions for Professional Consultancy

While ISA 540 (Revised) appropriately emphasizes professional skepticism, challenges may arise when auditing estimates that involve significant judgment and limited observable market evidence, particularly in markets where comparable market information is not readily available. In such circumstances, assessing the reasonableness of management's assumptions and identifying potential management bias can require considerable auditor judgment.

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

When the auditor exercises the professional skepticism, a lot of pressure is made from the client to accept the data and reports provided by them as it is without posing much challenge to the estimates.

Ernst & Young Global Limited (EY)

Although the standard establishes explicit principles and illustrative examples for demonstrating professional skepticism, the approach to its application—whether by an individual auditor or an audit team—may differ. As a result, auditors may apply, and document their application of, professional skepticism in different ways, even under comparable circumstances or factual scenarios. These differences can create varying expectations and interpretations regarding what constitutes sufficient documentation to evidence how professional skepticism was exercised, including how management's assumptions were challenged and how contradictory evidence was evaluated, especially when auditing estimates characterized by higher uncertainty, subjectivity, and complexity, such as those involving management-developed models.

Grant Thornton International Ltd (GTI)

Upon adopting ISA 540 (Revised), we observed that the enhanced stand-back requirement resulted in some challenges and inconsistency in application. In subsequent audit cycles, we have observed that the challenges and inconsistency have resolved, and we believe the explicit considerations required by the

enhanced stand-back have improved audit quality related to accounting estimates. See also our response to Q6.

Housam Halawa (Practitioner)

Valuations of businesses and properties

Kia Atlas (Director, RSM)

One challenge encountered when exercising professional skepticism arises in situations where management performs valuations internally and includes complex or highly subjective inputs. In such cases, management often provides extensive narrative explanations to support their assumptions. While the documentation may appear thorough, there can be a concern that the volume and sophistication of the explanation does not necessarily correlate with the robustness of the underlying support.

From an auditor's perspective, this creates difficulty in distinguishing between genuinely well-reasoned judgments and explanations that are drafted defensively to withstand audit scrutiny. The presence of detailed "blurb" can create an impression of rigor, yet the underlying inputs may still lack objective corroboration or sufficient market support.

This dynamic increases the challenge of applying professional skepticism effectively. Auditors must look beyond the form and length of documentation and focus on the substance, including the consistency of assumptions with external evidence, historical accuracy of management's estimates, and sensitivity of outcomes to key inputs. However, ISA 540 (Revised) does not always provide clear practical guidance on how to evaluate the quality of management's rationale versus its quantity.

Luna Space Financial Company

Minor challenges relate to understanding how professional skepticism should be applied in reviewing complex estimates. These are mostly handled by external auditors; our internal finance team follows standard internal review procedures

PricewaterhouseCoopers International Limited (PwC)

When the evidence supporting management's assumptions is predominantly qualitative, or when external data is limited, not directly comparable, or unavailable, both the application and documentation of professional scepticism become difficult, since a less objective basis for questioning management's assumptions or conclusions is available and greater judgement needs to be applied.

Additional challenges relate to determining the extent of audit documentation required to clearly demonstrate the nature and extent of the auditor's challenge of management and questioning mindset, including the nature and extent of challenge, discussions, and corroborative evidence in order to conclude on the reasonableness of management's assumptions.

RSM International Limited (RSM)

While ISA 540 (Revised) includes a number of important features designed to enhance the exercise of professional scepticism, certain challenges remain in its consistent application in practice.

In contrast, while identifying and responding to indicators of management bias is supported by a clear framework in ISA 540 (Revised), applying professional scepticism in this area can still be challenging in practice. The standard appropriately emphasises the need to identify potential bias; however, doing so

requires a high degree of judgement. Auditors may find it difficult to develop independent expectations or to effectively challenge management's assumptions, particularly in complex or highly subjective areas. Notwithstanding this, the requirements and application material provide an appropriate foundation, and no significant deficiencies in the standard itself were observed.

Similarly, while there are minor challenges in ensuring that all relevant audit evidence—both corroborative and contradictory—is appropriately considered, these challenges are not unique to ISA 540 (Revised). Rather, they reflect broader behavioural factors, including the natural tendency to anchor on initial expectations or known information. The standard's requirements, including the need to avoid bias towards corroborative evidence and to 'stand back' in evaluating audit evidence, provide an appropriate framework to address these risks, although consistent application may continue to be a challenge as professional judgement is required.

The challenges identified do not suggest deficiencies in ISA 540 (Revised) itself, but rather reflect the inherent judgement involved in applying professional scepticism consistently across different types of accounting estimates and engagement contexts.

Wing Tam (Principal, Forvis Mazar)

The main challenges involve limited transparency in management's assumptions, difficulty identifying subtle bias indicators, and time pressure when resolving contradictory evidence.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

Appropriately challenging management's judgments can be difficult, particularly where accounting estimates involve complex models, including increasingly complex AI-driven models used to produce forward-looking estimates, significant judgment or highly subjective assumptions. Challenges also remain in assessing management's selection of methods, assumptions and data, as well as in developing and supporting auditor point estimates or ranges.

In addition there are challenges in identifying and responding to potential indicators of management bias. In practice, management bias is often considered as a more pervasive financial statement level risk rather than being linked to a specific assertion or estimate. In addition, auditors may face difficulties in actively identifying contradictory audit evidence, rather than relying primarily on corroborative evidence obtained during the audit process.

Association of Chartered Certified Accountants (ACCA)

The primary challenge identified was not the application of professional scepticism itself, but rather demonstrating and documenting how professional scepticism was exercised in practice. In particular, auditors may find it difficult to clearly evidence the challenge applied to management's judgments, the consideration of contradictory evidence, and the basis for conclusions reached, especially in complex or highly judgmental estimates.

Chartered Accountants Australia and New Zealand (CAANZ)

However, the appropriate documentation of how the auditor has exercised this professional scepticism can be challenging. This is an area that has been noted by regulators. This is another area where case studies

and examples would be useful to provide practitioners with clear examples of how these matters are documented.

CPA Australia

We also heard that initial client resistance can arise when auditors challenge management more robustly, although this often improves over time as the value of that challenge becomes clearer.

Global Accounting Alliance (GAA)

Although there are issues in practice in terms of challenging management's judgements, we believe that these are inherent to the nature of accounting estimates and related disclosures. We consider that the standard already appropriately addresses these issues and is not deficient in this respect.

Care should be taken when interpreting inspection findings in this respect, as the cause of findings typically does not indicate deficiencies in standards, but deficient application thereof.

That said, we urge the IAASB to monitor developments related to complex or technology-enabled estimates, including AI-supported models. The use of such models may make it harder for auditors to understand and challenge management's methods, assumptions, data and outputs, particularly where the model has a "black box" nature. The IAASB may need to link its technology monitoring efforts vis-a-vis The Technology Catalog to this area and consider in the near-term potential non-authoritative implementation support that could be helpful for how auditors in how to apply professional skepticism when auditing complex, model-driven or AI supported estimates, including when specialized skills or knowledge may be needed.

Ibracon - Brazil Institute of Independent Auditors

While ISA 540 (Revised) placed greater emphasis on auditors with respect to the application of professional skepticism, particularly in relation to complex estimates or those involving subjective inputs, company management does not appear to have been adequately prepared to support the challenges raised by auditors — especially in areas involving subjective inputs. In other words, there is a notable difficulty on the part of management in explaining, for example, whether and how it considered alternative assumptions and the potential impact on the determination of the estimate, as well as how it addressed estimates involving a high degree of uncertainty.

Institute of Certified Public Accountants of Kenya (ICPAK)

- Management Bias
- Complexity of Estimates
- High Estimation Uncertainty
- Overreliance on Management or Experts
- Confirmation Bias
- Time and Resource Constraints
- Data Quality Issues
- Difficulty Identifying Contradictory Evidence

Institute of Chartered Accountants in England and Wales (ICAEW)

Applying professional scepticism appropriately remains a challenge generally. The standard does promote more robust challenge of management, but there is only so much the wording of an auditing standard can do to promote professional judgement and scepticism.

The increasing use of AI-based solutions to produce complex, forward-looking estimates such as expected credit losses often require the exercise of a high level of judgment by management and auditors. However, the internal processes involved in arriving at such estimates can make them exceptionally difficult to understand, which has implications for the work effort required to apply appropriate judgment and scepticism, and the nature and extent of evidence that can be expected of management.

Institute of Chartered Accountants of Ghana

Management may use estimates to manipulate financial statements to achieve their personal objectives especially where their remuneration and other incentives are based on performance. This would lead to creative accounting and misrepresentation of information that could create skepticism for auditors. They may play around the requirements of ISA 540 (Revised) to achieve their personal interests as against other stakeholders

These issues with accounting estimates are mostly with Companies whose directors are paid bonuses based on the positive performance of these Companies. The management of these companies makes lower estimates that inflate the level of their profits so that they can be paid their bonuses.

Institute of Singapore Chartered Accountants (ISCA)

One observation is that auditors may not adequately consider contradictory audit evidence when evaluating management's assumptions and estimates during audit execution.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Complexity in evaluating accounting estimates that involve significant management judgment and, therefore, a heightened risk of management bias, making the independent assessment of the estimate more challenging.

Complex models that require the involvement of specialists or experts.

Appropriately challenging management's judgments when unobservable inputs are used in the development of accounting estimates.

Lack of reliable documentation from management, which may limit the auditor's ability to obtain sufficient appropriate audit evidence.

International Federation of Accountants (IFAC)

While issues in practice may exist in terms of challenging management's judgements, professional skepticism is influenced by factors beyond the wording of the standard, including auditor experience, supervision, firm methodology and the audit environment. As such, the standard remains appropriate. Care should be taken when interpreting inspection findings in this area, as the cause of findings typically does not indicate deficiencies in standards, but rather deficient application.

A key emerging challenge relates to complex or technology-enabled estimates, including AI-supported models. The use of such models may make it harder for auditors to understand and challenge

management's methods, assumptions, data and outputs, particularly where the model has a "black box" nature. IFAC therefore believes further non-authoritative implementation support would be helpful on how auditors can apply professional skepticism when auditing complex, model-driven or AI-supported estimates, including when specialized skills or knowledge may be needed.

Malta Institute of Accountants (MIA Malta)

ISA 540 (Revised) appropriately emphasises professional scepticism; however, in practice, the key challenge lies not in the concept itself but in its consistent execution and documentation. This is particularly evident in areas involving complex models, subjective assumptions, external pricing or market data, and potential indicators of management bias. Auditors often face difficulties when dealing with wide ranges of reasonable outcomes, such as in impairment assessments, where small changes in assumptions can lead to significant variations in estimates. In such cases, it can be challenging to determine and robustly document an "appropriate" range and to clearly articulate the nature and extent of challenge applied to management's judgments in a manner that withstands retrospective inspection. There is also variability in how contradictory evidence and the "stand back" evaluation are documented. These challenges primarily relate to the practical execution and articulation of sceptical judgment rather than deficiencies in the standard itself, and would benefit from more targeted, practical guidance on how to document such judgments concisely yet persuasively.

Nordic Federation of Public Accountants (NRF)

While some challenges may arise in appropriately challenging management's judgments, the exercise of professional scepticism depends on factors beyond the wording of the standard. The standard therefore appears appropriate, and inspection

findings in this area are more likely to reflect issues in application rather than deficiencies in the standard.

Virginia Society of CPAs Audit and Accounting Committee

These types of issues inherently create a bit of friction with clients as they are pressured more to support their positions.

8. Others

EITMED

While ISA 540 (Revised) has strengthened the application of professional skepticism, certain practical challenges remain. In particular, appropriately challenging management's judgments can be difficult when accounting estimates involve significant estimation uncertainty, complex models, or highly subjective assumptions. Similarly, identifying indicators of management bias often requires substantial professional judgment, especially when estimates are supported by reasonable but highly judgmental assumptions. These challenges generally arise from the inherent nature of accounting estimates rather than deficiencies in the requirements of the standard. Overall, ISA 540 (Revised) provides an appropriate framework for promoting professional skepticism, although continued implementation support and practical examples may help enhance consistency in application.

Saudi Awwal Bank (SAB)

Difficulty in challenging management in high technical area

Confirmation Bias

Over reliance on historical accuracy

E. Suggestions for Course of Actions

6. Accounting Firms

Kia Atlas (Director, RSM)

Additional implementation guidance or illustrative examples on assessing the persuasiveness and objectivity of management prepared valuation documentation would assist auditors in applying professional skepticism more consistently and effectively

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

Stakeholders suggested that additional practical guidance or examples illustrating how professional scepticism may be documented could support more consistent application and inspection outcomes.

F. No Specific Responses

1. Monitoring Group

International Organization of Securities Commissions (IOSCO) Committee 1

5. Jurisdictional and Other Standards Setters (JSS)

Royal Netherlands Institute of Chartered Accountants (NBA)

We have no comments

Saudi Organization for Chartered and Professional Accountants (SOCPA)

South Africa Institute of Chartered Accountants (SAICA)

No other issues observed.

6. Accounting Firms

BKR ISIK Consulting (International Auditor Company)

Deloitte Touche Tohmatsu Limited (DTTL)

ELVI Audit FINANS LLC

Forvis Mazars Global Limited (Mazars)

Natiq Əliyev (Practitioner)

Bəzi Standartların tətbiqi zamanı yerli qanunvericiliklə uyğunsuzluqların olması

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Zamin Huseynov (Director, Crowe LLP)

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

European Federation of Accountants and Auditors for SMEs (EFAA)

No comments

Institute of Certified Public Accountants of Uganda (ICPAU)

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

No significant issues were observed in relation to professional skepticism.

8. Others

ASK KSA Consulting Inc.

None.

Trust Consulting and Training LLC

It's hard for me to say that now.

Question 18A

Provide additional input, if any, about any issues or challenges regarding the *interaction of ISA 540 (Revised) with ISA 315 (Revised 2019)* in relation to risk assessment procedures and the identification and assessment of risks of material misstatement for accounting estimates.

Significant Themes

- [A. Challenges Related to Scalability and Proportionality](#)
- [B. Challenges Related to Risk Assessment Procedures](#)
- [C. Other Challenges](#)
- [D. Suggestions for Course of Actions](#)
- [E. No Specific Responses](#)

A. Challenges Related to Scalability and Proportionality

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Auditors have noted practical challenges in understanding how the requirements of ISA 540 (Revised) interact with those of ISA 315 (Revised 2019) in the context of accounting estimates. While auditors

generally do not view the standards as inconsistent, some indicated that it can be difficult to determine how the procedures required by ISA 540 build upon, rather than duplicate, the broader risk assessment work performed under ISA 315. This can create a perception of duplicated effort, particularly when obtaining an understanding of management's processes and related controls over accounting estimates. The challenge is often more pronounced in audits of small and medium-sized entities and in relation to less complex estimates, where management processes may be informal and controls limited. In these circumstances, additional guidance on the interaction between the two standards and on applying the requirements proportionately would assist auditors in designing audit responses that are both risk-focused and scalable to the nature and complexity of the estimate.

5. Jurisdictional and Other Standards Setters (JSS)

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

The linkage between ISA 570 and ISA 315 is not clear. ISA 315 is risk based but ISA 570 requires specific audit procedures. This means that the work performed in line with ISA 570 may not be representative of the assessed risk. This is a key challenge for proportionality.

7. Professional Accountancy Organizations

CPA Australia

In our view, the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) remains a practical challenge.

Although ISA 540 is intended to build on ISA 315, in practice the boundary is not always clear. This can create a perception of duplication, particularly in understanding internal control, management's process and relevant controls over estimates.

This issue is especially pronounced in SME environments, where controls are often informal, management processes are straightforward, particularly where the more appropriate audit response is substantive testing or developing an independent expectation. In these cases, auditors may feel they are doing more work than management for simple estimates that adds limited audit value.

International Federation of Accountants (IFAC)

We also refer back to the issue already raised in our response to question 13. We do not consider applying ISA 540 (revised) to all accounting estimates to be a reasonable or proportionate outcome regardless of existing guidance on scalability and, indeed, this is not the approach that generally happens in practice considering the extent of transactions and balances that are subject to estimates. We consequently believe the scope of ISA 540 (Revised) should be adapted so that it is focused on estimates involving estimation uncertainty that gives rise to risks of material misstatement that have not been assessed as acceptably low or as being at the lower end of the spectrum of inherent risk. This would result in a significant reduction in complexity, particularly when auditing the financial statements of less complex entities.

B. Challenges Related to Risk Assessment Procedures

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

From a regulatory perspective, we continue to observe instances where auditors rely heavily on the risk assessment procedures performed under ISA 315 (Revised 2019) and conclude that no substantive audit procedures are necessary for a material accounting estimate solely because the assessed risk of material misstatement has been determined to be low. Even though, this is in line with ISA 540 which only requires auditors to design and further perform audit procedures particularly where an accounting estimate gives rise to a significant risk, this is however contrary to ISA 330.18 which states that irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. The IAASB needs to consider linking these requirements across the different standards.

Auditors have noted practical challenges in understanding how the requirements of ISA 540 (Revised) interact with those of ISA 315 (Revised 2019) in the context of accounting estimates. While auditors generally do not view the standards as inconsistent, some indicated that it can be difficult to determine how the procedures required by ISA 540 build upon, rather than duplicate, the broader risk assessment work performed under ISA 315. This can create a perception of duplicated effort, particularly when obtaining an understanding of management's processes and related controls over accounting estimates. The

Independent Regulatory Board for Auditors (IRBA)

Risk assessment is a foundational aspect of the ISA 540 (Revised) approach, and deficiencies in identifying and assessing risks of material misstatement for accounting estimates can have a direct and cascading impact on the nature, timing and extent of audit responses. Key themes included:

Over-generalised Risks:

Continued reliance in practice on over-generalised risk descriptions, with insufficient specificity in identifying which aspects of an estimate (such as assumptions, data inputs or estimation uncertainty) give rise to higher risk.

Incorrect Risk Focus:

In some cases, audit effort may not always be directed towards the most relevant drivers of estimation risk, resulting in misalignment between identified risks and audit procedures.

Misapplication of the Inherent Risk Framework:

Challenges in applying the inherent risk framework in a sufficiently granular and scalable way, including identifying whether risk arises from the estimate as a whole or from specific elements such as assumptions or data. This creates practical difficulty in scaling audit procedures appropriately, as practitioners may understand that lower-risk estimates require a proportionate response but still struggle to translate that into differentiated work effort and documentation in practice.

Inspections observed similar challenges in distinguishing between higher inherent risk and significant risk in practice, particularly where multiple inherent risk factors are present. This can result in inconsistent risk assessments and insufficiently tailored audit responses, especially where estimation uncertainty is high but not clearly translated into a significant risk designation.

Lesotho Institute of Accountants

The interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) is generally clear at a conceptual level, but practical challenges arise in applying and documenting the relationship.

Engagement teams may duplicate documentation or fail to clearly link the broader ISA 315 understanding of the entity and internal control to the estimate-specific understanding required under ISA 540. This is particularly challenging where management's estimation processes and related controls are informal.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Issues

1. Risk Assessment - Understanding of the applicable financial reporting framework

- Practitioners insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates (ISA 315.19(b)/ISA 540.13(b)) in order to assess whether the accounting estimates are reasonable in accordance with ISA 540.35; and/or
- Management's insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates, as part of management's process in making the accounting estimate (ISA 540.13(e)-(j)).
- If one or both parties don't have this understanding, the auditor cannot meet the core objective of the standard (ISA 540.9 and 11).

Source: (Practitioners and regulators).

2. Risk Assessment - Understanding the entity's system of internal controls:

- Obtaining an insufficient understanding of the entity's system of internal control relevant to accounting estimates (ISA 540.13(e)-(j)), which includes an insufficient understanding of:
 - o how information relating to accounting estimates and related disclosures flows through the entity's information systems (ISA 540.13(h((i))),
 - o management's process for making accounting estimates (ISA 540.13(h((ii))), and
 - o the control activities over that process (ISA 540.13(i)).
- Especially challenging in circumstances where the auditor is not planning to test and rely on the operating effectiveness of controls, and their planned further audit procedures to respond to risks in the accounting estimates are to "develop an auditors point estimate or range" (ISA 540.18(c)) instead of testing management's estimate (ISA 540.18(b)).
- Practitioners may be unclear on the impact on risk assessment and the design of further audit procedures if they identify control deficiencies in their evaluation of the component of internal control.

Source: (Practitioners and Regulators).

Group of Latin American Accounting Standards Setters (GLASS)

The standard's requirements for evaluating internal control are excessive, especially for SMEs. Unlike common transactions (such as sales or purchases) where internal control prevents fraud, the real risk in estimates stems from inherent factors, such as subjectivity and assumptions.

Although internal control is key in routine and complex estimates (such as expected credit losses in banks), it becomes largely irrelevant in the vast majority of simple estimates (such as depreciation or accounts receivable) because their methodologies are simple and reliance on their controls is rarely sought. Even in

complex but non-routine estimates (such as impairment testing under IAS 36), controls depend on management reviews that are difficult to document and inefficient to test, since their risks (bias and subjectivity) are already covered by inherent risk.

Therefore, it is proposed that the standard be aligned with ISA 315 and leave the decision of which control activities to evaluate and document to the auditor's professional judgment, thereby eliminating an unnecessary workload.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

We also heard that auditors face challenges when entities do not have appropriate controls in place for accounting estimates. This has been highlighted in relation to the use of management's expert where the entity's management has limited understanding of the estimate and there are inadequate controls in place.

South Africa Institute of Chartered Accountants (SAICA)

The requirements in ISA 315 (Revised 2019) contain some similar requirements as those in ISA 540 (Revised). This poses the risk of duplication in the performance of audit procedures as practitioners want to demonstrate adherence with both standards. The requirements in ISA 315 (Revised 2019) are not specifically addressed to deal with estimates. The application material in ISA 315 (Revised 2019) may need to be revised to better reflect the integration between the two standards. This could be done as part of the ISA 315 (Revised 2019) post implementation review which is quite imminent. It is our view that this would be better addressed in ISA 315 (Revised 2019).

Furthermore, positioning ISA 540 (Revised 2019) as a special considerations standard that deals with scenarios of a high degree of estimation uncertainty, could be considered by the IAASB. However, given that this could have significant implications, SAICA is of the view that there should be sufficient consultation prior to this decision being made and this should also await the ISA 315 (Revised 2019) consultation process.

6. Accounting Firms

BDO International Limited (BDO)

Challenges arise in applying ISA 540 (Revised) primarily because of the significant level of professional judgment and documentation required, particularly for complex or highly judgmental accounting estimates.

A core difficulty lies in the practical application of risk assessment concepts, including:

- assessing the interrelationship of inherent risk factors,
- distinguishing between inherent and control risk, and
- determining whether a risk constitutes a significant risk.

These assessments are often nuanced and can vary depending on the estimate's nature and the entity's control environment, leading to inconsistencies in application across engagements.

Further challenges arise in integrating ISA 540 with ISA 315 (Revised 2019). In practice, procedures are sometimes performed in silos rather than as a cohesive risk assessment, resulting in:

- duplication of work or documentation, and
- inefficiencies in achieving a clear, streamlined audit approach.

Cristian Emmanuel Munarriz (Practitioner)

Control activities

I think the risk assessment procedures related to the understanding of internal control are excessive, especially for simple accounting estimates. In contrast to transactions (i.e. sales, purchases, collections, payments, etc) and management of assets (i.e. cash, inventory management, etc), where the deficiencies in internal controls are very relevant because they may provide an opportunity for fraud, for estimates the risks are more related to inherent risk factors than to internal control deficiencies. While robust understanding of the methods, assumptions, source of data and estimation uncertainty is very important to appropriate assessment of the inherent risk factors, in my view, the specific control activities (paragraph 13.i) do not always have the same importance.

There are some routinary but complex estimates (e.g. expected credit losses in financial institutions, or asset retirement obligations in extractive industries) where control activities may be more relevant as the model used may be highly dependent on specific controls related to business operations (e.g. regarding credit risk assessment, specific financial projections and forecasts, etc). But the vast majority of accounting estimates (especially in SMEs) are based on simple methodologies and less subjective assumptions, especially routinary estimates (like depreciation of PP&E, incurred credit losses models for trade receivables, usual contingencies for which use of external lawyers is used, NRV of inventories, FV of quoted equity instruments, etc), for which the control activities are less relevant due to the limited opportunity for fraud related to internal control deficiencies and because a controls reliance approach is rarely used for these estimates.

There are also other estimates with complex methodologies and subjective assumptions but that are performed only in certain situations (e.g. IAS 36 impairment testing triggered by indicators of impairment, FV of equity settled share based payments, etc), or that are performed on a routine basis but only for financial reporting purposes (e.g. FV of unquoted equity instruments). These estimates may be more reliant on management review controls (instead of routine control activities), which are very difficult to assess and document, and are generally not relevant for audit purposes, except if the auditor is required to issue a separate opinion on internal control, because the deficiencies in such controls do not increase opportunity for fraud (as they are already interrelated with inherent risk factors, like subjectivity and management bias) and they are generally inefficient to test in a controls reliance approach.

Therefore, I think only relevant control activities should be identified under paragraph 13.i) in line with paragraph 26.a) of ISA 315. The identification of relevant control activities for the estimates to which is considered relevant should depend on auditor's judgment

Grant Thornton International Ltd (GTI)

As described in our response to Q7A, the work effort associated with risk assessment is circular in nature, and thus it can be difficult for auditors to differentiate the work effort related to obtaining an understanding of accounting estimates for which it is clear there is no risk of material misstatement compared with estimates that have estimation uncertainty, complexity, or subjectivity.

KPMG International Limited (KPMG)

Actual grading for 18(b) - 2

We have not graded our response to Question 18(b) specifically as a 4 or 3, however, we highlight the importance of close coordination by the IAASB regarding any future revisions to ISA 540 with revisions to

ISA 315, and also, in particular, ISA 330, to ensure such revisions are coherent and mutually reinforcing. We note, in particular, the need for careful consideration of the consequences of proposed changes to ISA 330.18.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

The separation of risk assessment requirements under the two standards can create duplication, increased documentation burden and operational inefficiencies. Feedback indicated that audit methodologies and software often separate the documentation processes under ISA 315 and ISA 540, resulting in parallel, and in worst case different, assessments of inherent risk and additional work effort.

We also observed uncertainty regarding when the more detailed requirements of ISA 540 (Revised) are expected to apply, particularly where estimation uncertainty is limited. Clearer integration between the two standards and clearer criteria regarding scalability and applicability could support a more coherent and proportionate risk assessment process.

Association of Chartered Certified Accountants (ACCA)

Stakeholders noted challenges in understanding the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment procedures and the understanding required of accounting estimates.

While stakeholders generally understand that ISA 540 (Revised) builds upon the broader risk assessment requirements of ISA 315 (Revised 2019), some noted that, in practice, it is not always clear where the requirements of one standard end and the more estimate-specific requirements of the other begin. This can create uncertainty regarding the extent of additional work required for accounting estimates and may lead to duplication of procedures or documentation.

Stakeholders also observed that risk assessment practices have evolved since the introduction of ISA 315 (Revised 2019). In particular, considerations relating to management bias and fraud are increasingly assessed as pervasive risks at the financial statement level rather than being linked to specific assertions or individual accounting estimates. As a result, there can be uncertainty regarding how these broader risk considerations should be reflected within the risk assessment process for individual accounting estimates under ISA 540 (Revised).

Chartered Accountants Australia and New Zealand (CAANZ)

As ISA 540 builds on the requirements in ISA 315 it is important that the principles and requirements of these standards are integrated so that the procedures to be undertaken are not duplicated.

Currently the standards are not fully integrated which presents challenges, particularly in SME audits and estimates which are lower risk. These challenges can result in duplication of procedures and work effort.

Challenges exist where entities do not have appropriate controls in place for accounting estimates. This has been highlighted in relation to the use of a management's expert where the entity's management has limited understanding of the estimate and the controls are inadequate.

Global Accounting Alliance (GAA)

In our view, the issue raised in 18(b) is the most important challenge arising from the implementation of ISA 540 (Revised) in practice, and the challenges referred to in 18(a), 18(c) and 18(d) largely stem from this.

We believe that auditors struggle to understand how the ISA 540 Revised) requirements are incremental to, rather than duplicate, the broader risk assessment work performed under ISA 315 (Revised 2019). This can create a perception of duplicated work effort, particularly when obtaining an understanding of management's process and related controls for accounting estimates has requirements that are located in multiple standards. This can lead to lower audit quality because of the inconsistent application of principles.

Institute of Certified Public Accountants of Kenya (ICPAK)

The primary challenge in the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised) is achieving a coherent, non duplicative risk assessment process for accounting estimates. Key difficulties involve:

Overlap between general and estimate-specific risk assessment procedures.

Application of the spectrum of inherent risk.

Assessment of estimation uncertainty and management bias.

Evaluation of controls over estimation processes.

Documentation and scalability concerns.

Consistent identification and assessment of risks of material misstatement at the assertion level.

Institute of Chartered Accountants in England and Wales (ICAEW)

We also note inefficiencies in audit arising from duplication of material across ISAs 540 (Revised) and 315 (Revised) and a lack of focus, specificity and tailoring of the latter to the former, paragraph 13 of ISA 540 revised being one example.

Institute of Chartered Accountants of Ghana

Industry generic risks should be identified in the understanding of the entity and its environment and how such risks could be identified and their potential effects identified. The two standards should be reconciled to address specific and generic risks affecting each industry and how such risk can be identified, assessed, classified and estimated

All industries have specific risks which needs to be addressed. ISA 315 interacts with ISA 540 (Revised) with risk assessment procedures the firms will have to do a proper assessment to mitigate the risk.

International Federation of Accountants (IFAC)

IFAC is aware of practical challenges in understanding how ISA 540 (Revised) interacts with ISA 315 (Revised 2019) in relation to risk assessment procedures for accounting estimates. The issue is not necessarily that the two standards are inconsistent, but that auditors may find it difficult to determine how the ISA 540 requirements build on, rather than duplicate, the broader risk assessment work performed under ISA 315.

This can create a perception of duplicated work effort, particularly when obtaining an understanding of management's process and related controls for accounting estimates. The concern is more pronounced for less complex estimates and audits of SMEs, where management processes may be informal and controls may be limited. In those circumstances, further clarity would help auditors apply both standards in a way that is proportionate to the nature and risk profile of the estimate.

Malaysian Institute of Accountants (MIA Malaysia)

The interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) presents practical challenges, as the boundary between the general risk assessment requirements of ISA 315 and the estimate focused requirements of ISA 540 is not always clearly articulated. This lack of clarity can result in uncertainty over the extent to which inherent risk factors should be evaluated, how internal controls should be incorporated into the audit of accounting estimates, and how the spectrum of inherent risk in ISA 540 should be consistently aligned with ISA 315's risk assessment framework. As a result, in practice, auditors may experience overlap and duplication when performing and documenting risk assessment procedures for accounting estimates

The Malaysian Institute of Certified Public Accountants

The interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) presents practical challenges, as the boundary between the general risk assessment requirements of ISA 315 and the estimate focused requirements of ISA 540 is not always clearly articulated. This lack of clarity can result in uncertainty over the extent to which inherent risk factors should be evaluated, how internal controls should be incorporated into the audit of accounting estimates, and how the spectrum of inherent risk in ISA 540 should be consistently aligned with ISA 315's risk assessment framework.

As a result, in practice, auditors may experience overlap and duplication when performing and documenting risk assessment procedures for accounting estimates.

C. Other Challenges

5. Jurisdictional and Other Standards Setters (JSS)

Institut der Wirtschaftsprüfer (IDW)

In our view, the issue raised in 18(b) is the most important challenge arising from the implementation of ISA 540 (Revised) in practice, and the challenges referred to in 18(a), 18(c) and 18(d) largely stem from this.

We observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is, understandably, not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is actually applied in practice.

See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

We heard that some stakeholders consider that regulatory findings persist relating to accounting estimates where the auditor does not sufficiently document their understanding of the client's business as this is core to applying a proportionate, risk-based audit of the entity's accounting estimates.

6. Accounting Firms

BDO International Limited (BDO)

Obtaining and documenting a sufficient understanding of how management develops accounting estimates is also a common issue. This is often affected by:

- poor system documentation,
- over-reliance on prior-year files, and
- limitations in client processes or supporting evidence.

As a result, there may be incomplete or inconsistent identification and assessment of risks of material misstatement, particularly

where inherent risk factors are not fully / consistently considered or changes identified from prior years. In more complex areas, additional challenges arise when:

- estimates involve high estimation uncertainty,
- specialised models or methodologies are used, or
- assumptions are highly subjective,

making it more difficult to perform procedures such as retrospective reviews and to obtain sufficient appropriate audit evidence.

Overall, while the requirements of ISA 540 (Revised) are generally clear, their effective application requires considerable judgment, and practical challenges persist in ensuring a consistent, integrated, and efficient risk assessment process across engagements.

Deloitte Touche Tohmatsu Limited (DTTL)

Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation, is an important step in the risk assessment process. However, for estimates with low estimation uncertainty, we have found that the time and effort to perform a retrospective review does not align with, and may outweigh, the benefit obtained from this procedure.

Forvis Mazars Global Limited (Mazars)

We consider that the new standard provided more explicit requirements than the original but the spirit and the intention remained unchanged.

KPMG International Limited (KPMG)

Furthermore, we highlight that paragraph 13(i) of ISA 540 requires the auditor to understand controls over management's process for making estimates. Taken in conjunction with paragraph 13(h)(ii), we believe that, when performing audit procedures in respect of complex estimates such as in relation to expected credit losses, for which management may use complex modelling techniques, the revised standard would

currently direct the auditor to understand the detailed internal architecture and decision-making logic of such models, and to identify inherent risks and control risks based on such understanding, in order to address risks of material misstatement (RMMs) at the assertion level. Over the next few years, entities are expected to significantly expand their use of AI modelling, e.g., within the banking industry entities are expected to utilize machine learning to enhance predictive accuracy of expected credit losses. As such models become increasingly sophisticated, using advanced techniques and complex algorithms that enable them to operate with greater processing volumes, it is likely to become significantly more challenging to develop such an understanding, including in respect of related controls.

7. Professional Accountancy Organizations

Global Accounting Alliance (GAA)

We also observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is applied in practice.

See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.

Institute of Chartered Accountants in England and Wales (ICAEW)

We note significant issues with reviewing the outcome of previous accounting estimates for low risk and low estimation uncertainty estimates, and the need to understand managements processes in such cases.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Materiality considerations and the auditor's exercise of professional judgment may affect risk identification, the nature and extent of audit evidence required, and the design and implementation of responses to assessed risks.

8. Others

ASK KSA Consulting Inc.

Retrospective review as previously noted.

D. Suggestions for Course of Actions

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Additional practical guidance and examples illustrating the integration of the two standards would help promote consistent and proportionate application.

Lesotho Institute of Accountants

Additional non-authoritative guidance showing how ISA 315 risk assessment documentation should flow into ISA 540 risk assessment for accounting estimates would be helpful.

5. Jurisdictional and Other Standards Setters (JSS)

Institut der Wirtschaftsprüfer (IDW)

Given the close interrelationship with ISA 315 (Revised 2019), we recommend that the results of this PIR be evaluated in conjunction with the findings of the planned PIR of ISA 315 (Revised 2019).

6. Accounting Firms

KPMG International Limited (KPMG)

Accordingly, we recommend that the IAASB explore inclusion, within the application material to this paragraph, of content that would guide auditors, when performing audit procedures in respect of such complex models, to direct their audit procedures to focus on understanding the strength of governance controls over such models, including in relation to their selection, customization and development, and review controls regarding the evaluation of the results that they produce.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We therefore suggest that additional guidance illustrating the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised), including practical examples of how the requirements can be applied in an integrated manner, would support more consistent implementation and reduce the risk of unnecessary duplication.

CPA Australia

These issues do not suggest a flaw in the principles of either standard. Rather, they indicate a need for clearer implementation guidance with practical examples on how ISA 540 should build on, rather than duplicate, ISA 315. In particular, additional guidance or examples could help illustrate how auditors can achieve a proportionate and non-duplicative risk assessment for simple estimates, in an informal control environment for SME audits.

E. No specific Responses

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

International Organization of Securities Commissions (IOSCO) Committee 1

4. Regulators and Audit and Assurance Oversight Bodies

Canadian Public Accountability Board (CPAB)

Chamber of Auditors of Azerbaijan Republic

Chamber of Auditors of the Czech Republic

Public Accountants and Auditors Board Zimbabwe (PAABZ)

Saudi Central Bank (SAMA)

UK Financial Reporting Council (UK FRC)

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

Hong Kong Institute of Certified Public Accountants (HKICPA)

Instituto Mexicano de Contadores Públicos (IMCP)

Japanese Institute of Certified Public Accountants (JICPA)

Royal Netherlands Institute of Chartered Accountants (NBA)

Saudi Organization for Chartered and Professional Accountants (SOCPA)

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

none

Baker Tilly International (BKTi)

BKR ISIK Consulting (International Auditor Company)

Crowe Solutions for Professional Consultancy

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

ELVI Audit FINANS LLC

Ernst & Young Global Limited (EY)

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

Luna Space Financial Company

Natiq Əliyev (Practitioner)

PricewaterhouseCoopers International Limited (PwC)

Qulu Cebizade (Practitioner)

RSM International Limited (RSM)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Wing Tam (Principal, Forvis Mazar)

Zamin Huseynov (Director, Crowe LLP)

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

European Federation of Accountants and Auditors for SMEs (EFAA)

Ibracon - Brazil Institute of Independent Auditors

Institute of Certified Public Accountants of Uganda (ICPAU)

Institute of Singapore Chartered Accountants (ISCA)

Malta Institute of Accountants (MIA Malta)

Nordic Federation of Public Accountants (NRF))

We refer to our responses to Q 6 and 11.

Pan African Federation of Accountants (PAFA)

Virgina Society of CPAs Audit and Accounting Committee

8. Others

EITMED

Saudi Awwal Bank (SAB)

Trust Consulting and Training LLC

Question 19

Briefly describe these or any other issues or challenges you encountered or observed related to *risk assessment procedures* and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.

Significant Themes

- [A. Challenges Related to Scalability and Proportionality](#)

- [B. Challenges Related to Risk Assessment Procedures](#)
- [C. Other Challenges](#)
- [D. No Specific Responses](#)

A. Challenges Related to Scalability and Proportionality

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of Azerbaijan Republic

Minor challenges can arise in applying risk assessment procedures, particularly for estimates with high uncertainty or complexity.

Lesotho Institute of Accountants

These challenges require significant professional judgment and are most pronounced in estimates involving a high degree of estimation uncertainty, complexity, or subjectivity, such as fair value measurements, impairment assessments, expected credit loss provisions, actuarial-type estimates, provisions, and going concern assessments. However, challenges may also arise in relation to simpler estimates where management documentation is limited or where audit teams experience difficulty applying the requirements in a proportionate manner.

UK Financial Reporting Council (UK FRC)

As noted above, some practitioners have noted the difficulty in applying the requirements in paragraph 13 of ISA 540 (Revised) to less complex accounting estimates within the context of audits of small- and medium-sized entities. We also understand that there is sometimes a tendency for auditors of these entities to default to the treatment of highly material accounting estimates as significant risks, despite limited indications for the presence of a heightened risk of material misstatement.

5. Jurisdictional and Other Standards Setters (JSS)

Group of Latin American Accounting Standards Setters (GLASS)

We believe that while retrospective review is essential for assessing high risks, the current standard lacks clarity and practical utility in several specific scenarios.

Institut der Wirtschaftsprüfer (IDW)

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

SCALABILITY CHALLENGES

We have heard mixed views on scalability. Some stakeholders noted that the standard appropriately highlights scalability and works in practice.

ISA 540 (Revised) was informed by matters impacting large and complex entities, for example the expected credit loss accounting standard. Many smaller entities do not have estimates of that nature.

Many found scalability and proportionality to be a key challenge. These concerns related to scaling the requirements to:

- smaller entities with simple estimates
- less complex estimates for larger entities
- an estimate that is multiples of materiality for which any misstatement is more likely to be material versus an estimate that is very close to the materiality threshold.

Practitioners from small practices commented that they apply the same approach regardless of the complexity of the estimate and have asked for additional case studies to be provided illustrating the application of principles in real-life scenarios. There are challenges in applying risk assessment at the assertion level for estimates when the spectrum of risk differs at a more granular level. For example, in a discounted cash flow model, the level of risk may be assessed to be different for the cash flows and the discount rate. However, both the cash flows and discount rate may impact the same assertions. Stakeholders highlighted the challenge of applying the requirements over the methods, assumptions and data that may impact the same assertion, but for which the inputs have very different risk profiles.

6. Accounting Firms

BDO International Limited (BDO)

Challenges are more pronounced for complex estimates, especially where:

- estimation uncertainty is high,
- assumptions are highly subjective, or
- external data is limited, making it difficult to determine whether sufficient appropriate audit evidence has been obtained.

Crowe Solutions for Professional Consultancy

Risk assessment procedures are generally clear under ISA 540 (Revised). However, challenges may arise in identifying and assessing risks for accounting estimates that involve high estimation uncertainty, significant complexity, or heavy reliance on management judgment. In such cases, determining the appropriate level of inherent risk and linking it to responsive audit procedures can require substantial professional judgment.

Grant Thornton International Ltd (GTI)

Related to Question 18(d), we responded "2" as it relates to scalability for less complex entities that are scoped out of applying the ISA for LCE. ISA 540 (Revised) does not include explicit scalability considerations for smaller entities with limited resources which may not have robust methods related to accounting estimates. We heard in outreach amongst our network firms that auditors have questions about the expected work effort in such scenarios. Specifically, the standard does not address how to evaluate the impact of these scenarios on the audit, including whether such matters are considered a pervasive finding, an identified deficiency to evaluate further under ISA 450, or whether such matter is required to be communicated.

KPMG International Limited (KPMG)

We have observed a number of challenges in respect of the risk assessment procedures required by the revised standard, which are reflected in the gradings we have assigned in respect of each of the detailed questions above, in particular, 18(d). We note that the challenges relate, in particular, to our concerns regarding the scalability and proportionality of the standard in respect of less complex estimates that are subject to low estimation uncertainty, or estimates where estimation uncertainty may be confined to one element of the estimate. For further information regarding these concerns refer to Question 11.

Luna Space Financial Company

Minor challenges mainly relate to understanding how risk assessment procedures should be applied to complex estimates. Most risk assessment is handled by external auditors; internal finance team follows standard internal review and approval procedures

PricewaterhouseCoopers International Limited (PwC)

Some challenges encountered in risk assessment procedures relate to appropriately identifying and articulating inherent risk factors that have a greater impact on the level of inherent risk associated with accounting estimates. We observe that these challenges are most pronounced for estimates with a high degree of estimation uncertainty or complexity, where significant judgement, complex models or assumptions, or less observable inputs increase the difficulty in assessing the likelihood and magnitude of potential misstatement and in clearly documenting the rationale for the assessed risks, i.e., which inherent risk factors are the predominant drivers of the assessed risks.

RSM International Limited (RSM)

While ISA 540 (Revised) establishes a conceptually robust framework for risk assessment procedures, certain challenges arise in practice. These challenges are generally assessed as minor to moderate and are primarily driven by implementation considerations rather than deficiencies in the standard.

Moderate challenges were identified in relation to the consideration of inherent risk factors—namely estimation uncertainty, complexity and subjectivity—and the interrelationships between them. In particular, when accounting estimates involve a high

degree of technical complexity, auditors may face difficulty in fully dissecting these factors and clearly articulating what could give rise to a risk of material misstatement. These challenges may be exacerbated when the engagement team does not have sufficient subject-matter expertise or when the involvement of auditor's experts is not appropriately timed. As a result, the ability to develop sufficiently tailored risk assessments and responses may be affected. These challenges are more pronounced for estimates with higher levels of complexity and estimation uncertainty.

The challenges identified relate primarily to estimates with a higher degree of estimation uncertainty and complexity, although certain issues—such as understanding management's processes—may also arise in less sophisticated environments. The requirements and application material set out in ISA 540 (Revised) are considered sound; however, consistent and effective application in practice continues to depend on auditor judgement, expertise, and appropriate use of specialists.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

We also observed that the challenges related to risk assessment procedures are more significant for accounting estimates involving greater estimation uncertainty, complexity or judgment, particularly where complex models, assumptions or data are involved. By contrast, some requirements may appear less proportionate for simple or low-risk estimates where estimation uncertainty is limited.

Association of Chartered Certified Accountants (ACCA)

Overall, we consider that the identified challenges are more closely associated with the complexity of particular accounting estimates and the interaction of ISA 540 (Revised) with other auditing standards, such as ISA 315 (Revised), rather than with the fundamental design of the risk assessment framework in ISA 540 (Revised).

CPA Australia

For simpler estimates, the challenge is different: it is often about proportionality, including how much work, documentation and retrospective review is enough.

Overall, the issues are not limited to complex estimates. Rather, the nature of the challenge differs depending on where the estimate sits on the spectrum of inherent risk. For complex estimates, the issue is often capability, data, modelling and judgment. For simpler estimates, the issue is often over-auditing, duplication and lack of clarity on what proportionate application looks like in practice.

Global Accounting Alliance (GAA)

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

International Federation of Accountants (IFAC)

IFAC has observed that the main challenge in relation to risk assessment procedures does not necessarily arise with complex estimates, where the need for more extensive work is generally clearer. A more difficult issue can arise in SME or less complex audits, where accounting estimates may be simple and not among the areas of greatest audit risk.

In these circumstances, there is a risk that applying ISA 540 (Revised) may direct disproportionate attention to accounting estimates, including understanding and documenting management's process, when audit effort may be better focused elsewhere.

B. Challenges Related to Risk Assessment Procedures

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Persistent Application Challenges

12. Recurring deficiencies observed in practice include:

- Weaknesses in risk assessment procedures, including poor linkage between identified risks, relevant controls, and the resulting nature, timing, and extent of audit responses.

- Inadequate evaluation of the design and implementation of controls for estimates, including estimates with assessed risks of material misstatement at the higher end of the inherent risk spectrum.
- 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.
- Insufficient challenge of management's judgments, particularly for highly subjective estimates or those susceptible to management bias.
- Inconsistent distinction between "high" and "significant" inherent risk for complex estimates, reflecting challenges in assessing estimation uncertainty, complexity, and subjectivity across the inherent risk spectrum.
- Challenges in auditing advanced or AI-driven models used in estimates, including limited transparency over model logic ("black box" models) and difficulties in assessing the relevance and reliability of third-party data inputs.

Botswana Accountancy Oversight Authority (BAOA)

The use of prior-year information can be challenging in periods of significant economic change, as information that was relevant and reliable in previous periods may no longer provide a meaningful basis for assessing current-year accounting estimates as historical data and assumptions can quickly become outdated and be superseded by current and forward-looking information. In such circumstances, auditors are required to exercise greater judgment in determining the extent to which historical information remains useful when performing retrospective reviews on accounting estimates.

Canadian Public Accountability Board (CPAB)

Weaknesses in risk assessment procedures, including insufficient linkage between identified risks, controls, and the nature and extent of audit responses. [ISA 540.16, .18]

Chamber of Auditors of Azerbaijan Republic

The information used by management is sometimes: incomplete, outdated or subjective.

Control of the evaluation process: formal in nature and insufficient documentation.

Chamber of Auditors of the Czech Republic

Retrospective review may require extra effort and be affected by changes in assumptions or economic conditions, while other procedures are generally well supported by the standard's guidance.

Independent Regulatory Board for Auditors (IRBA)

Retrospective review: scope, timing and practical application challenges:

Retrospective review remains a significant challenge area in practice. There appears to be uncertainty about how far the auditor is expected to take the procedure, particularly given that the objective is not to re-audit the prior-year estimate but to use hindsight appropriately to inform current-year risk assessment. We also noted that some elements of estimates are easier to review retrospectively than others; for example, actual outcomes such as income and expenses may be observable, whereas assumptions such as discount rates or weighted average cost of capital (WACC) are more difficult to revisit meaningfully after the fact. In addition, retrospective review often sits awkwardly within the audit timeline, as management

may only prepare the current estimate at or near year end while audit planning and risk assessment occur much earlier. As a result, teams may perform the retrospective review later during execution, reducing its usefulness as a planning and risk assessment tool.

Lesotho Institute of Accountants

The main challenges encountered relate to understanding and documenting management's process for developing accounting estimates, as well as identifying and assessing the associated risks of material misstatement. Difficulties often arise where management's methods, assumptions, data sources, and controls are not clearly documented or are informal in nature. Auditors may also face challenges in evaluating the appropriateness of management's estimation process, determining the level of inherent risk, and distinguishing between varying degrees of estimation uncertainty, particularly in rapidly changing economic environments.

Saudi Central Bank (SAMA)

The most significant challenges observed relate to applying the separate assessments of inherent and control risk (e) and understanding the interrelationship between ISA 315 and ISA 540 (b). Auditors in smaller firms particularly struggle with documenting how inherent risk factors such as complexity and subjectivity are considered in their risk assessments for accounting estimates in the insurance sector

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Issue

3. Risk Assessment - Retrospective review

- Uncertainty around how to perform a retrospective review through the subsequent re-estimation of previous accounting estimates (ISA 540.14) in situations where the outcome of a previous accounting estimate is not yet resolved through transfer or realization of the asset or liability in the current period (ISA 540.A55). In this case, there is uncertainty about what constitutes an appropriate basis for performing, or concluding on, the retrospective review.
- Especially challenging to determine nature and extent this review when:
 - o Performing the risk assessment early in the audit process before the outcome of the estimate is known; or
 - o The outcome of an accounting estimate is resolved over a longer period (such as pension liabilities, asset retirement obligations, than can cover multiple decades (see ISA 540.A56)) and re-estimation is complex.
- Notably, SME practitioners without national methodologies or templates found it challenging to perform this procedure at an appropriate level of detail in light of the nature of the accounting estimates. Source: (Practitioners)

Australian Auditing and Assurance Standards Board (AuASB)

The retrospective review process may sometimes result in the auditor performing unnecessary audit work without obtaining useful information – more scalability and guidance in relation to the nature and extent would be helpful.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- There may be insufficient information or market data at the audit planning stage to perform an appropriate retrospective review

of previous accounting estimates, e.g. for fair value measurements categorised within Level 3 of the fair value hierarchy. • There is limited guidance on how to review previous accounting estimates for situations in which fair value accounting estimates are determined using market approach rather than cash flow projections.

- There is currently no IFRS accounting standard requirement for management to perform a retrospective review of previous accounting estimates (e.g. fair value), which makes it more difficult for auditors to carry out such a review.

Instituto Mexicano de Contadores Públicos (IMCP)

Regarding the understanding requirements in ISA 315 revised, we consider that there is minor impact in practice because auditors will perform such understanding by obtaining whatever documentation has been prepared at the entity level. We recognize that SMPs may struggle a bit more but receiving little or no formal documentation will, nonetheless, contribute to completing the risk assessment process. For the retrospective review, it is hard to rate the "agreement" as it depends entirely on the specific circumstances of the audit, and the individual accounting estimate; feedback received reflects experiences based on the entity size, complexity of the estimate and type of industry.

Japanese Institute of Certified Public Accountants (JICPA)

In some cases, management's estimation processes are not well- established, and the entity's internal controls are insufficient in regard to the basis of assumptions and the breakdown of estimation factors. However, we do not believe this is due to the high degree of uncertainty or complexity of the estimation process.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Some stakeholders emphasised the importance and value of retrospective reviews of estimates.

Others however reported the following challenges:

- Difficulty in certain circumstances to test the outcome of a previous estimate.
- That the time and effort to perform a retrospective review is significant and question the confidence it provides in some circumstances.

Some stakeholders questioned the benefit of performing a retrospective review when the estimate continues into the current period and is subject to other audit procedures.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

The findings of the audit quality inspections over SMPs exhibit that some SMPs have shown a failure to conduct retrospective reviews of management's judgments and assumptions, which are related to significant accounting estimates; in order to assess the reasonableness of the accounting estimates.

South Africa Institute of Chartered Accountants (SAICA)

Retrospective reviews - Difficulties performing effective retrospective reviews, particularly where estimates are prepared significantly before year-end and relevant outcome data is misaligned with timing.

6. Accounting Firms

Baker Tilly International (BKTi)

The main challenges in relation to risk assessment procedures relate to inconsistent execution and depth of application rather than conceptual difficulties. In practice, certain elements, such as retrospective review and linking prior outcomes to current-year risk assessment, are not always performed or clearly evidenced.

These challenges arise across both complex and routine estimates. While complexity increases the need for judgment and challenge, simpler estimates at times remain unidentified/ documented or receive insufficient attention, particularly where focus is directed toward higher-risk areas.

BDO International Limited (BDO)

However, practical challenges remain, especially in applying these concepts consistently and proportionately.

A key issue is the effective application of professional judgment in risk assessment, including:

- consistently identifying significant assumptions and relevant inherent risk factors,
- appropriately distinguishing between inherent and control risk, and
- ensuring the risk of material misstatement is adequately considered in the assessment process.

While these concepts are generally understood, there are challenges in assessing and documenting their interrelationships and in linking risk assessment outcomes to the selection of appropriate audit procedures, particularly when multiple approaches may be suitable.

Integration with ISA 315 (Revised 2019) has improved the overall framework, but in practice, scalability and efficiency issues persist, with risks of duplication or fragmented execution across standards.

Retrospective reviews do add value when completed as intended but can be:

- resource-intensive,
- sometimes treated as a procedural formality, and
- Sometimes less informative where underlying assumptions or economic conditions have changed between periods.[MR1.1] [JR1.2][MR1.3][JR1.4][MR1.5][JR1.6]

In addition, weaknesses in client processes and documentation, including reliance on prior-year information, can limit auditors' ability to obtain a robust understanding of how estimates are developed, further affecting risk assessment quality.

Cristian Emmanuel Munarriz (Practitioner)

Retrospective review

While application of this requirement is clear for routine estimates (e.g. impairment of trade receivables and inventory, sales with right of return, etc) and some estimates based on broader financial projections and forecasts (e.g. impairment of goodwill and PP&E, FV of unquoted equity instruments if discounted cash

flows are used, where you can see how the financial forecasts used in the estimate in prior year were met in current year), it is less clear how to perform this review for specific estimates. For example:

1) One-off estimates where the estimate is generally performed once for financial reporting purposes and there is little available subsequent information to contrast with the estimate (e.g. FV of acquired assets and liabilities in a business combination, FV of equity settled share based payments, etc). In this case, there is neither re-estimation nor outcome. For example, in the case of FV of acquired assets and liabilities in a business combination is not clear if the auditor should compare FV of specific assets that were sold (e.g. inventory) with their subsequent sale, if applicable, or do nothing at all. In the case of FV of equity settled share based payments, it is not clear if the auditor should consider new equity settled share based payments issued (i.e. compare FV of a prior year equity settled share based payment with a current year equity settled share based payment, if similar), or do nothing at all.

2) Estimates based on financial projections but where the cash outflows are expected to occur many years into the future, so there is lack of subsequent information to contrast against the estimate (e.g. asset retirement obligations, where the actual cash flows can only be observed many years into the future). In this case, you only have re-estimation but not outcome. For example, it is not clear if the auditor should compare the asset retirement obligation with the outcome of similar asset retirement obligations, or only with the subsequent re-estimation if the asset retirement obligation's outcome will occur in the future.

3) Routine accounting estimates performed for financial reporting purposes where the outcome of the estimate cannot be usually verified with subsequent objective information unless certain conditions occur (e.g. FV of PP&E items and unquoted equity instruments where the market or cost approach are used that are not routinely bought or sold). In this case, you only have re-estimation but usually not outcome.

For example, it is not clear if the estimate should only be compared with the outcome when it actually occurs (i.e. comparing only with subsequent re-estimation in the other periods), or it should be compared with the outcome of the sale of similar assets (i.e. sale of a similar item of PP&E) or similar transactions made by other entities (purchase or sale of the same equity instrument by another entity).

4) Estimates that were calculated on a different basis or using different methods (e.g. impairment testing of non-financial assets using value in use in one year and fair value less cost of disposal in the other, or FV of an asset using market approach in one year and cost or income approach in the other). In this case, there is generally no outcome and the re-estimation may not be entirely comparable.

For example, it is not clear if the auditor should compare comparable assumptions (considering that differences may exist due to the different accounting requirements for both basis), if any. As the underlying causes of the differences between prior year and current year estimate may not be identifiable, the retrospective review may not be useful.

5) Also, it should be clarified how the retrospective review should be performed when comparing fair value and subsequent sale of the asset, as the underlying causes of the differences between both values may not be identifiable, making the retrospective review not very useful for risk assessment purposes in such cases.

6) For estimates made in highly unstable scenarios or for which the economic environment changed significantly and the estimate is significantly affected by economic environment (e.g. IAS 36 impairment testing), it may not be possible for the auditor to identify the specific underlying causes of the differences between the estimate and the subsequent re-estimation or outcome due to the significant change in many economic variables, making the retrospective review not very useful for risk assessment purposes in such cases. This is the case for some estimates significantly affected by economic environment in many

emerging economies, and also applicable to the current global geopolitical and economic environment (i.e. conflicts in Ukraine and Iran, US tariffs, etc).

For cases 1) to 3), maybe further application guidance is useful.

While I think that the retrospective review is very important for risk assessment of accounting estimates, especially those with higher inherent risk and most susceptible to management bias, I am not sure if the requirement is useful for cases 4 to 6) (at least from a cost-benefit perspective). Therefore, for cases 4) to 6), I think the IAASB should consider adding an exemption for the requirement, where the auditor is required to document the reasons this exemption was applied for each estimate and the impact in risk assessment, if any (for example, if the exemption is related to case 6 there may be an impact in the assessment of the level of estimation uncertainty).

Ernst & Young Global Limited (EY)

A primary challenge lies in establishing the appropriate nature and extent of procedures necessary for conducting a retrospective review that effectively informs the current period's risk assessment, especially given the evolving nature of facts and circumstances related to accounting estimates. While the standard clearly states that the retrospective review should not involve reassessment of prior period judgments, practical application often involves reconsideration of those previous judgments, along with their underlying facts and circumstances.

For low risk or simple accounting estimates, risk assessment procedures are usually straightforward, and retrospective reviews rarely provide new information for current period risk assessment, raising the question of whether such reviews should be mandatory for all estimates.

Also, in relation to 18(d), some investments that involve estimation uncertainty are valued by entities through the use of pricing services or vendors. Auditors may find it difficult to assess the valuation of such investments, including the degree of estimation uncertainty, without directly understanding the methods and processes used by these pricing services or vendors, particularly if management also lacks such understanding.

Forvis Mazars Global Limited (Mazars)

The issue with a retrospective review is that people use the benefit of hindsight when evaluating the accuracy of previous estimates. This has been a common issue with regulatory reviews for example

KPMG International Limited (KPMG)

Retrospective review

We support the principle of performing a retrospective review regarding the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation, as required at paragraph 14 of the revised standard. We believe that this procedure can provide useful information, including regarding the effectiveness of management's estimation process, about the complexity or estimation uncertainty related to a particular estimate, as well as to assist the auditor in identifying management bias.

However, we consider that the inclusion of this requirement in an unconditional form creates challenges in terms of scalability and proportionality of audit work. These challenges arise, in particular, in relation to estimates with low complexity and estimation uncertainty. Although the requirement includes scalability in enabling the auditor to determine the nature and extent of the review based on the characteristics of the accounting estimate, there is very limited further guidance in relation to practical scalability adaptations. As a

result, auditors may direct a disproportionate work effort towards compliance with this requirement, the audit evidence obtained from this review may be duplicative of other audit evidence obtained, for example, from inquiry of management and process walkthroughs when this is accompanied by sufficient detailed questioning and challenge, as well as substantive audit procedures, and as a result may not provide incremental audit evidence regarding the estimation process.

The standard contains only limited discussion regarding the relationship between the review and the type of estimate, e.g., when the estimate is a value-in-use estimate, the retrospective review may provide helpful insights regarding management's forecasting process as a key aspect of their estimation process, however, when the estimate is a fair value estimate based on observable market values, a retrospective review is less likely to provide meaningful insights to inform risk assessment.

The standard also makes reference to performing the review over several periods when the outcome of an accounting estimate is resolved over a longer period, however, it does not address the circumstances in which the outcome of the estimate is resolved in each period (e.g., such as the collection of short-term trade receivables) but it is the pattern of resolution over multiple periods, e.g., where management's assumptions may have been overly optimistic in each period, that may provide meaningful insights for the auditor to support risk identification and assessment.

The above scenarios may result in the auditor performing unnecessary audit work without obtaining useful information, as a result of which auditors may approach this review requirement as a mechanical compliance procedure and conclude that an estimate is reasonable without obtaining meaningful insight into the quality of the estimate or whether there are indicators of bias. Furthermore, the audit procedures performed may not be appropriately designed to address specific risks to obtain sufficient approach audit evidence.

In addition to the above, the standard does not adequately discuss the impact on the audit of variances, including:

- Whether a higher variance indicates that there is a higher inherent risk, or is an indicator of management bias, and the factors the auditor may consider in making this determination, which may lead to inconsistency in practice;
- Although the standard notes that "The review is not intended to call into question judgements about previous accounting estimates that were appropriate based on the information available at the time they were made", with the related application material also stating that "A difference between the outcome of an accounting estimate and the amount recognized in the previous period's financial statements does not necessarily represent a misstatement of the previous period's financial statements", it is possible that a retrospective review may identify a misstatement in the previous period's financial statements, and the standard does not explicitly acknowledge this or note that, in these circumstances, the auditor considers the implications for the prior year auditor's report.

PricewaterhouseCoopers International Limited (PwC)

Challenges were also identified in the risk assessment procedures related to accounting estimates for which the auditor determines there to be limited inherent risk factors that affect the level of inherent risk, and the extent of procedures required relating to retrospective reviews where engagement circumstances indicate the accounting estimate has a lower degree of estimation uncertainty and complexity. In those circumstances, certain engagement teams are of the view that retrospective reviews provide limited benefits to the quality of risk assessment.

RSM International Limited (RSM)

Moderate challenges were also observed in understanding management's process for making accounting estimates. ISA 540 (Revised) requires a comprehensive understanding of management's methods, assumptions, data and related controls; however, this can be difficult to achieve in practice, particularly when management processes are informal, documentation is limited or the underlying models and data sources are complex. Auditors may also encounter challenges in evaluating the reliability of external data and the appropriateness of management's models, particularly when expertise is required, but not readily available. While these challenges may arise across a range of estimates, they are more acute for complex estimates and in environments with less mature processes.

Minor challenges were identified in relation to the retrospective review of accounting estimates. Auditors may, at times, focus on numerical differences between prior estimates and outcomes, rather than using the retrospective review as a tool to inform risk assessment and identify potential indicators of management bias. This is a matter of application and training, rather than a lack of clarity in the standard, and is expected to improve over time with experience.

No significant issues were identified in relation to understanding the entity and its environment, including internal control, or in distinguishing between inherent and control risk and identifying significant risks. These aspects were appropriately aligned with ISA 315 (Revised 2019) and consistent with broader risk assessment practices.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

The most commonly identified challenge relates to the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). While stakeholders recognise that ISA 540 (Revised) builds on the broader risk assessment requirements in ISA 315 (Revised 2019), there can be uncertainty regarding the extent of additional procedures and documentation required specifically for accounting estimates. This may result in duplication of effort in some circumstances.

Stakeholders also noted that challenges are generally concentrated in accounting estimates involving higher levels of complexity, subjectivity or estimation uncertainty, including estimates that rely on complex models, specialised assumptions or significant management judgment. In these circumstances, obtaining an understanding of management's process and assessing the impact of the various inherent risk factors may require significant auditor judgment and specialist involvement.

By contrast, retrospective reviews of previous accounting estimates were generally not viewed as particularly challenging, as outcomes can often be corroborated through subsequent events or available information. Similarly, stakeholders did not identify significant challenges in determining whether risks relating to accounting estimates should be classified as significant risks.

Chartered Accountants Australia and New Zealand (CAANZ)

While some practitioners are positive about the use of a retrospective review, there was also feedback that for some estimates, the value of a retrospective review is low compared to the time and effort required. This is an area where more scope for professional judgement may be required.

CPA Australia

Similar to the "stand-back" requirement, practitioners generally find retrospective review highly beneficial in most circumstances because it can help identify indicators of management bias and weaknesses in management's estimation process. However, the challenge arises in determining what level of work effort and documentation is proportionate for simple estimates or estimates with low estimation uncertainty. In these cases, practitioners can find it difficult to judge how much retrospective review is enough.

A further challenge arises where actual outcomes are inherently uncertain and are driven by unforeseeable market movements or other external factors, rather than management judgment. In those cases, retrospective review may provide limited incremental insight, and it does not necessarily enhance understanding of management's estimation process. More broadly, the usefulness and efficiency of retrospective review are highly contextual and depend on the nature of the estimate, the audit context, and the reasons for changes between the estimate and the eventual outcome. Therefore, we found the framing of question 18B appears somewhat binary for what is, in reality, a highly contextual matter. Another challenge is understanding and documenting management's process, particularly where the auditor decides that developing an independent expectation or range is more appropriate than testing management's method in depth. For complex estimates, the main difficulty is understanding models, specialist assumptions, large or external data sets, and the interaction of complexity, subjectivity and estimation uncertainty. This is particularly challenging where "black box" or less transparent models are used.

Ibracon - Brazil Institute of Independent Auditors

When a retrospective review is prepared by management, the criteria considered for selecting the prior time range, for example,

are not always clear, and understanding the rationale behind the threshold for determination of estimation effectiveness can be challenging sometimes.

Additionally, depending on the nature of the accounting estimate, information gathering for purposes of the execution of the retrospective review (p.e. subsequent disbursements) by the auditor and matching it to the prior estimate is also a challenge. Performing retrospective reviews in scenarios where the prior year estimate has not been fully settled in the current period is also challenging, particularly when management has not prepared its own retrospective review analysis. Depending on the complexity of estimates and the volume and subjectivity of data and assumptions used, performing the retrospective review at the "estimate" level is difficult to achieve as in these scenarios it is probable that the only alternative would be look through the entity's re-estimation process.

Institute of Chartered Accountants of Ghana

Where events or situations which are not frequent occurs, the company may not have developed any procedure to address them, Such situations create adhoc measures and procedures which may not be the best to address the situation. This also create a complex situation to apply any effective estimation to give a fair presentation of information and data

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Entities frequently do not maintain traceable and documented evidence that would allow for a retrospective review, nor do they maintain complete documentation of changes in assumptions.

Malaysian Institute of Accountants (MIA Malaysia)

Retrospective review of accounting estimates can be challenging due to changes in economic conditions and assumptions may limit comparability with actual outcomes. The process can also be time-consuming, especially for accounting estimates with high uncertainty and complexity.

Malta Institute of Accountants (MIA Malta)

The main practical challenges relate to translating the revised concepts of ISA 540 (Revised) into a clear, operational, and

scalable methodology. In practice, audit teams often face difficulty in determining the appropriate depth of understanding required, how ISA 540-specific procedures build on the broader understanding obtained under ISA 315, and how to effectively operationalise separate inherent and control risk assessments. Additional complexity arises in evaluating the interrelationship between complexity, subjectivity, and estimation uncertainty, particularly for estimates involving significant judgment, complex models, or system-generated data. Specific challenges include uncertainty around the appropriate scope and value of retrospective reviews, where clearer guidance on how these should be scaled based on risk would be beneficial. Furthermore, for complex estimates with high estimation uncertainty, it can be difficult to translate understanding of management's process and inherent risk factors into a clear, supportable assessment of inherent and control risk, including the identification of significant risks. These challenges are most pronounced for high-risk or highly complex estimates and primarily relate to practical application rather than deficiencies in the standard itself.

The Malaysian Institute of Certified Public Accountants

Retrospective review of accounting estimates can be challenging due to changes in economic conditions and assumptions may limit comparability with actual outcomes. The process can also be time-consuming, especially for accounting estimates with high uncertainty and complexity.

Virgina Society of CPAs Audit and Accounting Committee

(e) and (f) have always been substantively required. Analyzing inherent and control risks and quantifying its significance has always been a challenge for external auditing firms that tend to focus primarily on the quantitative (v. qualitative) factors and presence (v. effectiveness) of mitigating key controls.

8. Others

ASK KSA Consulting Inc.

A retrospective review does not makes sense in many cases. Especially in SMPs where there is no formal process in place by management, the exercise incurs a lot of time that is does not provide value in the audit. This only seems to make sense when the auditor is relying on operating effectiveness of controls related to the estimates. If performing tests of detail, why is a retrospective review needed?

EITMED

The risk assessment requirements in ISA 540 (Revised) are generally appropriate and well aligned with the nature of accounting estimates. However, some practical challenges remain in applying them consistently, particularly when considering the interrelationship of inherent risk factors and determining how they affect the assessment of risk. In practice, greater difficulty is often experienced for estimates involving a high degree of estimation uncertainty, subjectivity, or complexity, where it may be more challenging to distinguish

between inherent risk, control risk, and the implications for significant risk judgments. The retrospective review requirement is useful, although its interpretation and use may vary depending on the availability and quality of prior-period information.

C. Other Challenges

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

We understand that there is a challenge in applying the risk assessment at the assertion level where the spectrum of risk is often at a more granular level (e.g. risk may be higher in the cash flows but lower in the discount rate).

South Africa Institute of Chartered Accountants (SAICA)

Risk Assessment Quality and Specificity - Continued reliance on over-generalised risks, with insufficient specificity around which inputs, assumptions or aspects of an estimate give rise to higher risk.

6. Accounting Firms

BDO International Limited (BDO)

ISA 540 (Revised) has strengthened the structure and consistency of risk assessment, particularly through the introduction of inherent risk factors, which support improved identification and evaluation of risks related to accounting estimates. Retrospective reviews are also recognised as a valuable audit tool, providing important insights into management bias and the ability to estimate as well as informing current-year risk assessment.

Overall, while ISA 540 (Revised) and ISA 315 together provide a strong and coherent framework, their effective implementation requires careful judgment, sufficient resourcing, and high-quality inputs, with ongoing challenges in achieving consistent, proportionate, and efficient application in practice.

Additional non-authoritative guidance could therefore be helpful, particularly in relation to addressing highly complex estimates and ensuring a more consistent application in practice. The interplay of various factors and complex cause-and-effect relationships make analysis difficult.

Ernst & Young Global Limited (EY)

With regard to 18(d), entities are rapidly increasing their use of artificial intelligence in financial reporting processes, which are and will increasingly affect management's processes to make accounting estimates. AI can enable more complex modelling, rapid iteration through scenarios and assumptions, and dynamic updating of estimates when underlying inputs change. AI may also be employed by management to understand and address estimation uncertainty, potentially reducing risk of management bias in certain circumstances but conversely the AI model itself could introduce bias. Overall, the auditor's procedures needed to understand management's process (and to test it) need to evolve to focus on the entity's governance processes over the models, data and assumptions that involve use of AI, as well as management's ability to "explain" the resulting estimate rather than to "make" it themselves.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We generally consider the risk assessment requirements in ISA 540 (Revised) to be operating effectively and to have contributed to a more structured and robust approach to identifying and assessing risks related to accounting estimates. The enhanced focus on understanding management's methods, assumptions, data and processes has improved auditors' understanding of accounting estimates and the factors that give rise to risk.

Institute of Chartered Accountants of Ghana

Procedures on ad hoc challenges like natural disasters are hardly planned for and are mostly ignored during the Company's risk assessment.

8. Others

Saudi Awwal Bank (SAB)

Inexperienced team performing the risk assessment

More focus on management provided working and schedule

Trust Consulting and Training LLC

Difficult to Determine

D. No Specific Responses

1. Monitoring Group

International Organization of Securities Commissions (IOSCO) Committee 1

4. Regulators and Audit and Assurance Oversight Bodies

Public Accountants and Auditors Board Zimbabwe (PAABZ)

5. Jurisdictional and Other Standards Setters (JSS)

Royal Netherlands Institute of Chartered Accountants (NBA)

N/A

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

None

BKR ISIK Consulting (International Auditor Company)

Deloitte Touche Tohmatsu Limited (DTTL)

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

None

ELVI Audit FINANS LLC

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

N/A

Natiq Əliyev (Practitioner)

Qeydim yoxdur.

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Wing Tam (Principal, Forvis Mazar)

Zamin Huseynov (Director, Crowe LLP)

no

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

European Federation of Accountants and Auditors for SMEs (EFAA)

N/A

Institute of Certified Public Accountants of Kenya (ICPAK)

Institute of Certified Public Accountants of Uganda (ICPAU)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institute of Singapore Chartered Accountants (ISCA)

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Nordic Federation of Public Accountants (NRF))

We refer to our responses to Q 6 and 11.

Pan African Federation of Accountants (PAFA)

Question 23

Briefly describe these or any other issues or challenges you encountered or observed related to *responding to risks of material misstatement* and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.

Significant Themes

- [A. Benefits](#)
- [B. Challenges Related to Scalability and Proportionality](#)
- [C. Challenges Related to the Auditor's Response](#)
- [D. Other Challenges](#)
- [E. No Specific Responses](#)

A. Benefits

6. Accounting Firms

KPMG International Limited (KPMG)

In general, we consider that the revised standard sets out clearer, more structured, objective-based requirements in respect of responses to the assessed risks of material misstatement. Taken together with the revisions to the standard to drive a more rigorous risk assessment process, enabling the auditor to design more targeted further audit procedures to respond to the assessed risks of material misstatement, focused on where the risk specifically resides, we believe the revised standard drives significant improvements to audit quality, in particular, in respect of more complex estimates with greater estimation uncertainty.

RSM International Limited (RSM)

In relation to responding to assessed risks of material misstatement under ISA 540 (Revised), the issues and challenges identified in practice are generally minor and implementation driven. No significant issues were identified, and the standard provides clear and appropriate requirements and application material for designing and performing responses to assessed risks of material misstatement.

No specific issues or challenges were identified in relation to determining whether to test the operating effectiveness of controls or in the overall evaluation of whether accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework. These areas were considered to be aligned with broader audit practices and not to present challenges specific to ISA 540 (Revised).

B. Challenges Related to Scalability and Proportionality

5. Jurisdictional and Other Standards Setters (JSS)

Saudi Organization for Chartered and Professional Accountants (SOCPA)

The findings of the audit quality inspections over SMPs exhibit that some SMPs have shown a failure in developing an independent unbiased (alternative) estimate, in order to challenge the management estimates.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

Overall, we consider that the most significant challenges arise in relation to accounting estimates characterised by higher levels of complexity, subjectivity and estimation uncertainty. While challenges relating to scalability and proportionality may arise for less complex estimates, these were generally viewed as less significant than the challenges associated with more complex accounting estimates.

Global Accounting Alliance (GAA)

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

International Federation of Accountants (IFAC)

A greater practical challenge arises in SME or less complex audits, where management's process for developing an estimate may be informal, poorly documented, or not clearly remembered. In such cases, auditors may find it difficult to determine whether to test management's process in depth or instead develop their own estimate or range as the more effective response.

For more complex estimates, challenges may arise in testing management's methods, assumptions and data, understanding complex models, addressing estimation uncertainty, and evaluating identified misstatements where the audit evidence supports a point estimate or range that differs from management's estimate. The challenges therefore do not relate only to highly complex estimates or only to simple ones. The key issue is helping auditors select and apply a response that is proportionate to the assessed risk and capable of providing sufficient appropriate audit evidence without unnecessary work.

Nordic Federation of Public Accountants (NRF)

The challenges are often more pronounced in SME and less complex audits, where management's process for developing an accounting estimate may be informal and not extensively documented. In these circumstances, it can be difficult for auditors to determine whether testing management's process or developing an independent estimate or range would be the more appropriate audit response.

C. Challenges Related to the Auditor's Response

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

- Inappropriate use of auditor developed point estimates or ranges including:
 - Inadequate understanding of how management addressed estimation uncertainty
 - Insufficient consideration of auditor independence

Challenges in auditing advanced or AI-driven models used in estimates, including limited transparency over model logic ("black box" models) and difficulties in assessing the relevance and reliability of third-party data inputs

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Auditors face challenges in responding to risks of material misstatement in accounting estimates, particularly in selecting appropriate audit procedures. While using post-year-end evidence is often straightforward, greater difficulty arises when testing management's estimation process or when auditors develop their own estimate or range, especially where processes are informal, documentation is insufficient, or estimates involve significant judgment and complex assumptions. Common issues include insufficient challenge of assumptions, inadequate testing of the completeness and accuracy of data used in models, over-reliance on management's experts, and limited consideration of management bias. The key challenge is ensuring audit responses are appropriately tailored to the assessed risk while still obtaining sufficient appropriate audit evidence efficiently.

Canadian Public Accountability Board (CPAB)

Challenges Identified through CPAB Inspections

CPAB issued a publication in 2021 that discussed common inspection findings related to the implementation of Canadian Auditing Standard (CAS) 540 (Revised) (ISAs issued by the IAASB are adopted in Canada and issued as CAS). The observations in our 2021 publication¹ were based on our inspection of audit engagements that had applied the revised standard for the first time. The inspection findings highlighted in that publication continue to be relevant to the IAASB's post-implementation review. We have issued an updated publication, *Strengthening Audit Quality – Auditing Accounting Estimates*, that builds on the key messages included in the 2021 publication with additional examples and linkage to firms' system of quality management.

Common challenges identified through our inspections include:

- Not requesting management to address the level of estimation uncertainty. [ISA 540.27]
- Insufficient challenge of management's judgments, particularly where estimates involve significant subjectivity or are sensitive to management bias. [ISA 540.22-29]
- Inappropriate use of auditor-developed point estimates or ranges without a sufficient understanding of how management addressed estimation uncertainty, and without adequate consideration of auditor independence. [ISA 540.26]
- Inadequate consideration of contradictory audit evidence and insufficient documentation of stand-back assessments. [ISA 540.18, .33, .34]

1 2021-inspections-insights-estimates-en.pdf

Chamber of Auditors of the Czech Republic

Challenges mainly arise for estimates with high uncertainty or complexity. Testing management's approach and developing an auditor's point estimate or range require professional judgment, while other procedures are generally well supported by the standard's guidance.

Independent Regulatory Board for Auditors (IRBA)

Developing an auditor's point estimate or range: We observed practical challenges in assessing how wide an auditor's range can be while still providing meaningful audit evidence, and in determining the implications when the range is broad (in some cases, multiples of materiality). There is also uncertainty about how such outcomes should influence the auditor's evaluation and disclosures.

Our inspections reinforce that where auditors develop independent point estimates or ranges, there is insufficient evaluation of how these relate to management's approach, as well as practical challenges in maintaining objectivity and clearly documenting the basis for conclusions, particularly where ranges are wide.

Volatile or limited available market data: We also observed that responding to risks becomes particularly challenging where estimates depend on volatile forward-looking information or where there is limited availability of relevant market data. Rapidly changing economic conditions, macroeconomic assumptions and other forward-looking inputs can make it difficult to assess whether management's assumptions remain reasonable throughout the audit and can reduce the usefulness of external benchmarks. These challenges are often more acute in newer or rapidly evolving industries, where market data may be sparse, observable inputs limited and valuation practices still developing. In such circumstances, auditors may face greater difficulty in obtaining sufficiently persuasive corroborative evidence and in determining whether differences in assumptions or outcomes are indicative of estimation uncertainty, reasonable judgement, or possible misstatement.

Our inspections confirm that auditors experience difficulty in challenging forward-looking assumptions underpinning forecasts (e.g. growth rates, cash flows, credit losses), particularly where external corroborative evidence is limited or where assumptions are highly judgemental.

Evaluating differences between management's estimate and the auditor's expectation: We noted challenges in evaluating differences between management's estimate and the auditor's expectations, particularly in determining when such differences constitute misstatements. This appears especially complex where different audit approaches are applied within the same estimate (for example, assessing management's estimate for certain components while developing an independent estimate for others), as the implications of differences may vary depending on the approach used. Additional challenges arise where the auditor's range is wide or where management's estimate falls outside the auditor's range, creating uncertainty about whether and how such differences should be reflected as misstatements. In our view, these are practical application challenges in translating audit evidence into consistent evaluation outcomes.

Determining whether audit evidence is sufficient and appropriate to conclude if the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. A pervasive theme across inspection findings is the failure to sufficiently evaluate the relevance and reliability of data, as well as the appropriateness of methods and assumptions used by management. In many cases, audit procedures do not address all three components holistically, resulting in gaps in audit evidence.

Lesotho Institute of Accountants

The main challenges encountered in responding to assessed risks of material misstatement relating to accounting estimates involve determining and performing the most appropriate audit procedures to obtain sufficient appropriate audit evidence. In particular, auditors may face difficulties in deciding whether to test management's process, develop an independent point estimate or range, or use subsequent events as audit evidence. These decisions often require significant professional judgment and, in some cases, specialized expertise.

Additional challenges arise when evaluating management's methodologies, models, assumptions, and the completeness and reliability of underlying data, particularly where estimates involve complex methodologies, significant assumptions, or limited observable information. It can also be difficult to assess

whether management's selected point estimate and related disclosures are reasonable, especially when the auditor's independently developed range is wide or when specialist expertise is required. Furthermore, there may be concerns that an auditor's independent estimate could be perceived as substituting for management's responsibility for making the estimate.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

These challenges are most prevalent in estimates with a high degree of estimation uncertainty or complexity, such as fair value measurements, impairment assessments, and expected credit loss calculations. The need to evaluate multiple assumptions, consider alternative outcomes, and assess the reasonableness of management's judgments often requires additional audit effort, specialist involvement, and extensive documentation.

Saudi Central Bank (SAMA)

The most notable challenges relate to developing auditor's point estimates or ranges (e) and evaluating identified misstatements against those estimates (g), particularly for complex insurance reserving and investment property valuations. Auditors in smaller firms often lack the specialized expertise needed to independently challenge management's actuarial assumptions.

UK Financial Reporting Council (UK FRC)

The FRC has been told that there are potential practical difficulties in instances where an auditor's point estimate is developed and misstatement in management's estimate is identified. In such instances, there is a risk that management inappropriately adopt the auditor's estimate as their own. It has been suggested that guidance beyond that in paragraph A116 could be helpful addressing the expectations of management and auditors in these circumstances.

Additionally, some practitioners have communicated to us that illustrative examples or practical guidance could assist auditors on the following matters:

- The specific actions that auditors need to follow when they have selected the approach, from those outlined in paragraph 18, to test the management process for a significant risk.
- Determining the extent of disaggregation required when considering the methods, assumptions and data of an estimate, especially for complex estimates where there may be misstatements attributable to the separate aspects of the method, assumptions or data associated with the estimate. Examples illustrating the level of detail at which the auditor might consider the methods (including models), assumptions and data in their identification and assessment of risks of material misstatement, and their response to these risks, would be helpful for practitioners.
- How the auditor may identify where it may be more appropriate to use a point estimate or range.
- How the auditor may assess their own estimates against those of the audited entity, including actions to take if there is a very large estimate with uncertainty in excess of performance materiality, and the implications for the auditor's report.
- Further guidance on the use of technological tools for auditing accounting estimates.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Issues

1. Responses to the assessed risks of material misstatement (a, e from question 22):

Difficulty determining the most appropriate response to the assessed RMM, particularly when is it appropriate to develop an auditor's point estimate or range under ISA 540.18(c):

- As currently prescribed in the ISA, the response in 18(c) to develop an auditor's estimate, is appropriate when:

- o The auditor determines that management's response to the auditor's request to understand or address estimation uncertainty is an insufficient response (para. 27); or

- o The other circumstances described in para. A118 exist:

- management's current period process is not expected to be effective
 - deficiencies in the entity's controls within and over management's process for making accounting estimates
 - events or transaction between the period end and the date of the auditor's report have not been properly taken into account; or
 - there are appropriate alternative assumptions or sources of relevant data that can be used in developing an auditor's point estimate or a range.
- Practitioners have indicated that, when the circumstances described in paragraph A118 are present, they have applied the response in paragraph 18(c) by developing an auditor's point estimate or range.
- Regulators, however, have indicated that in such circumstances the practitioner should instead require management to improve its process for making the accounting estimate, remediate control deficiencies, take into account post-period-end events or transactions, or revise the assumptions used. Once management has done so, the practitioner would then apply the response in paragraph 18(b) and test how management made the accounting estimate.
- In practice, this creates difficulty in determining when paragraph 18(c) is appropriate, and whether the circumstances in paragraph A118 are meant to justify the direct development of an auditor's point estimate or range, or instead to prompt further work by management before the auditor applies paragraph 18(b).

Source: (Practitioners and Regulators).

2. Overall evaluation of whether the accounting estimates is reasonable when ranges are developed (d-g in question 22):

When management or the practitioner has developed a range for the accounting estimate (see ISA 540.18(b), A96, 18(c), and 29), challenges arise in determining whether the accounting estimate is reasonable in the context of the applicable financial reporting framework, or is misstated under ISA 540.35, particularly when the measurement outcome falls:

- at the periphery end of the range,
- outside of the range by an immaterial amount,
- within the range, but the range is multiples of materiality (existing paras. A125, A139-A144 provides only limited guidance on this issue),
- chosen from within a range of reasonable outcomes but appears to be more favorable to mgmt.'s reporting objectives (540.A133-A134).

Source: (Practitioners, including public sector auditors).

3. Overall evaluation: Determining whether the disclosures are reasonable in the context of the applicable financial reporting framework (AFRF) (f in question 22)

- Challenges in performing the auditor's evaluation of whether, in the case of a fair presentation framework, management has included disclosures beyond those specifically required by the AFRF, that are necessary to achieve the fair presentation of the FS as a whole (ISA 540.36(a))

- o This evaluation is challenging because, although it is management's responsibility to identify any additional disclosures necessary for users to understand the entity's financial position and financial performance, it is the auditor's responsibility to evaluate whether the financial statements as a whole achieve fair presentation.

- o Feedback from regulators indicates that this challenge is particularly acute for higher-risk accounting estimates that are subject to greater estimation uncertainty and other inherent risk factors. For example, feedback from regulators who review the FS disclosures related to expected credit losses accounted for under IFRS 9 indicated that although the AFRF does not require disclosures around 'management overlays' that information would be useful to them.

- o Some applicable financial reporting frameworks require entities to provide additional disclosures when compliance with the specific requirements of the standards is insufficient to enable users to understand the effect of particular transactions, other events, and conditions on the entity's financial position and financial performance. One example is IAS 1.17(c)).

- o ISA 540.A143 provides only limited guidance on the auditor's evaluation of the disclosures in para. 36(a).

Source: (Regulators and other users).

Australian Auditing and Assurance Standards Board (AuASB)

In relation to auditor's expert:

- When to use such an expert (i.e. determining when an auditor doesn't have the appropriate skills or knowledge).
- How to determine which expert to use, particularly where management has also used an expert and the industry has a limited number of appropriate experts.

- Clarifying the scoping of the expert's work – particularly who is responsible for testing the underlying data.
- Over-reliance on the use of the expert's work (bias), insufficient testing and challenge of the expert's findings. Where the work of a management's expert is used:

- Where management engages their own expert, auditors need to be cautious about bias (both auditors and management) towards the work of such an expert.

- Using management's own internal forecasts for impairment calculations has an inherent bias and ASIC has observed a "tick box" approach where auditors accept management's valuations without independently assessing the inputs or the competence and objectivity of management's valuation experts.

Testing management's estimate / developing auditor's estimate:

- Auditors may be reluctant to develop a point estimate owing to independence considerations as well as concern regarding the expected levels of precision.

- Auditor's estimate not matching management's estimate and having ranges that are multiples of materiality.

- Offsetting valuation errors in a sample of derivatives in a large population.

Other ASIC inspection findings in this area:

- Auditors often fail to sufficiently test the forecast cash flows, discount rates, growth rates, and other key assumptions in impairment models
- Auditors frequently do not adequately challenge the economic scenarios, historical data adjustments, and probability weightings used by management to estimate loan and receivable provisions.
- Auditors regularly fall short in reviewing the completeness and appropriateness of data and variables used to calculate complex provisions (e.g. insurance claims, environmental restoration).

Group of Latin American Accounting Standards Setters (GLASS)

The auditor's margin of confidence is wide for estimates with very high uncertainty. It is unclear how to address this fact (for example, in the auditor's report and in the assessment of uncorrected errors) when the auditor's margin of confidence for an accounting estimate is greater than materiality.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- 22(d) Testing how management made the accounting estimate: This is particularly challenging for estimates that involve significant management judgment, such as discounted cash flows and budgeted information, where auditing management's assumptions requires robust challenge and the relevant market data that may not be readily available. In addition, management's experts often provide only limited information to auditors, further exacerbating the practical challenges faced by audit teams.
- 22(e) Developing an auditor's point estimate or range: In practical situation, significant professional judgement is needed (which could cause expectation gap) in determining to what extent audit evidence is considered sufficient and appropriate, quantitatively and qualitatively, to justify the points at both ends of the range are reasonable when the range is multiples of materiality for the financial statements as a whole. When auditing significant valuation estimates, the resulting range may be wide and could exceed materiality, making it difficult to justify its reasonableness. In addition, in practice some auditors may not fully recognise that developing an auditor's point estimate or range still requires a thorough understanding of management's estimate. This expectation gap, together with the need for clear documentation of the model adopted for determining the auditor's point estimate or range, the relevant basis, and the supporting audit evidence, presents further practical challenges in this area.
- 22 (g) Evaluating identified misstatements related to accounting estimates, including when the audit evidence supports a point estimate that differs from management's point estimate or a range that does not include management's point estimate, or when the auditor's range is wide (in some cases, multiples of materiality for the financial statements as a whole): This is particularly challenging and the potential implications of identified misstatements for the auditor's report must be evaluated.

Institut der Wirtschaftsprüfer (IDW)

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

Instituto Mexicano de Contadores Públicos (IMCP)

These comments relate to estimates with high degree of estimation uncertainty or complexity. Audit teams, including specialists and experts, spend more time understanding the methods, models and assumptions used by management when preparing the estimates. This includes having more detailed discussion and challenging the prepares to provide more tangible and detailed evidence of such topics. Accuracy and completeness of information extracted from information systems or used by auditors to develop a range or point estimate may become a challenge as it may not have been requested in the past with the level of precision or data points needed. Methodologies applied by the auditor's specialists or experts could vary in extent and nature as the estimates are more subjective and are based on facts and circumstances that evolve over time.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Determining the most appropriate response to assessed risk

We have heard that concerns that the documentation of the distinction between testing approaches described in paragraph 18 often becomes blurred (i.e. more than one method is used to test management's estimate). While the standard acknowledges the possibility in paragraph A81, it does not address the practical challenges that arise.

For example, the auditor may plan to test how management made the accounting estimate (18 (b)) but may become aware of weaknesses in management's approach while performing this testing. Due to the weaknesses identified, the auditor may then develop a "challenger" estimate.

This "challenger" estimate may include elements of an auditor's point estimate. When this occurs, the documentation may become less clear as to whether this still constitutes testing of whether management's estimate is reasonable, or whether this moves into developing an auditor's point estimate or range.

The regulator highlighted that auditors may document that they are using a testing approach, but the evidence on file supports a different method. Ensuring this consistency of documentation across the audit file is a key challenge.

Testing how management made the estimate

Auditors may be uncertain about which parts of management's estimate to test and how to document the professional judgement applied in making that determination.

Challenges also arise when auditors cannot access all parts of an estimate. For example, if management uses an expert and parts of the model are protected as proprietary, auditors may not have sufficient access to review them fully. This can make it difficult to determine what constitutes sufficient appropriate audit evidence for those protected elements and may blur the distinction between testing approaches.

With the increased use of technology, additional risks identified with regard to black box" models are expected to become more common.

Auditors also reported challenges in deciding when to involve an expert to assess the reasonableness of management's estimate. Where management has used an expert, auditors may also find it difficult to source an auditor's expert with the necessary skills in smaller markets such as the New Zealand market.

Developing an auditor's point estimate or range

Developing a point estimate is often challenging and costly and is therefore uncommon in practice. We heard challenges:

- around the level of precision required when an auditor develops a point estimate or range. This is particularly when evaluating misstatements where there is a high level of uncertainty and the estimate is complex
- about a lack of clarity about what steps to take to resolve differences between an auditor's estimate and management's estimate.
- related to independence in circumstances when there is a difference and a client adjusts their accounting estimate to reflect the auditor's point estimate.

6. Accounting Firms

Baker Tilly International (BKTi)

The main challenges in responding to assessed risks relate to the practical application of the audit response, including determining the most appropriate testing approach, evaluating whether controls should be tested, and sufficiently challenging management's methods, assumptions and data. Auditors do not always apply a sufficient level of scrutiny to assumptions used in estimates, particularly in external valuation reports, and that considerable effort has been required to develop templates and support more robust documentation.

BDO International Limited (BDO)

We consider, in general, ISA 540 (Revised) provides a clear and well-structured framework for responding to risks related to accounting estimates, including explicit expectations for selecting audit approaches and evaluating outcomes. The standard effectively outlines responsibilities and key factors to consider, supporting a more disciplined and risk-driven approach.

However, challenges arise in its application, particularly for complex or highly uncertain estimates. In such cases, auditors may face difficulty in:

- Selecting and documenting the most appropriate audit response, especially where multiple approaches may be suitable or need to be combined
- Ensuring procedures remain truly responsive to the risk, rather than defaulting to standardized or checklist-approaches
- Applying professional judgment consistently, particularly when estimates involve significant uncertainty or complexity and sufficiently documenting the application thereof.

Obtaining sufficient appropriate audit evidence can also be challenging, particularly where:

- external data is limited, or
- estimates rely heavily on subjective assumptions or specialized/unestablished models

Additional complexity arises when evaluating differences between management's estimate and the auditor's independent estimate or range. In practice, particularly in areas such as valuations, ranges can be wide and may exceed overall materiality, creating difficulty in determining whether an estimate is reasonable or misstated.

Overall, while the standard provides a robust conceptual and procedural framework, its effective application depends heavily on auditor judgment, particularly in high-risk or high-uncertainty scenarios. Challenges are less about clarity in the standard and more about consistent execution in complex real-world situations.

Cristian Emmanuel Munarriz (Practitioner)

Auditor's range is wide for estimates with very high estimation uncertainty

It is not clear how to address the fact (e.g. in the audit report and in the evaluation of uncorrected misstatements) when the auditor's range for an accounting estimate is wider than materiality.

Crowe Solutions for Professional Consultancy

Minor to moderate challenges have been experienced in developing an auditor's point estimate or range, particularly for complex accounting estimates where auditor's experts are involved. In such cases, the process can be time-consuming and resource intensive, and may require substantial coordination with specialists and access to reliable underlying data.

Deloitte Touche Tohmatsu Limited (DTTL)

Developing an auditors point estimate or range:

We appreciate that the requirements in ISA 540 (Revised), as it relates to the development of the auditor's range, allow for the appropriate level of professional judgement to be applied by the auditor. In practice, however, we have seen where auditor judgment has come into question given that a small change in assumption can result in a wide range of reasonable outcomes.

Ernst & Young Global Limited (EY)

Auditors sometimes encounter difficulties in obtaining sufficiently robust information about the selection of methods, data or assumptions from management to support audit responses, particularly in circumstances when management's processes and documentation are less sophisticated. In such circumstances, auditors may need to perform a greater extent of procedures to corroborate or independently benchmark key inputs—and may, at times, develop an auditor's point estimate or range—to respond appropriately to assessed risks of material misstatement, even when the underlying estimate is not necessarily characterized by a high degree of estimation uncertainty or complexity. Accordingly, these challenges are not limited to highly complex accounting estimates but can also arise in less complex scenarios where the availability and quality of management documentation does not directly address all the aspects in ISA 540 paragraphs 22-25. (Also refer to our response to Question 19 regarding new challenges arising in practice from entities' use of artificial intelligence in their processes to make accounting estimates and existing challenges related to entities' use of pricing services and pricing vendors).

When audit responses include developing an auditor's point estimate or range, a key practical challenge is navigating objectivity and independence considerations (including avoiding any perception of assuming management responsibilities), particularly because we believe the application material is not sufficiently clear as to when independence would be impaired.

In addition, challenges may arise in developing and using very wide ranges (in some cases, multiples of materiality), and these challenges may occur even when the underlying estimate is not necessarily characterized by a high degree of estimation uncertainty or complexity.

Forvis Mazars Global Limited (Mazars)

The challenges relate primarily to the fact that the estimates have a high degree of estimation uncertainty or complexity.

Grant Thornton International Ltd (GTI)

Related to Question 22(g), we support the language in ISA 540 (Revised) which permits the auditor to have a wide range, in certain cases, when developing a point estimate or range; however, we continue to see auditors struggle with evaluating identified misstatements related to accounting estimates. While we believe auditors struggle less with this evaluation under ISA 540 (Revised) than the previous standard, we do not think the issue is resolved. This challenge is not limited to estimates that have a high degree of estimation uncertainty or complexity. Furthermore, we are concerned these challenges may be exacerbated by proposed changes to ISA 520, which would require the auditor to "determine an amount, not exceeding performance materiality, as a basis for evaluating any difference between the expectation developed to the auditor and the recorded amount... that is acceptable without further investigation." Given the similarity between the design of a substantive analytic and the process for developing a point estimate or range in ISA 540 (Revised), we suggest the IAASB proceed with caution related to the proposed changes to ISA 520 as these standards may appear to be in conflict if the proposed changes are made.

Additionally, in certain jurisdictions, regulators have questioned auditors who chose not to test operating effectiveness of controls relevant to accounting estimates, even though such tests are not required by ISA 540 (Revised).

KPMG International Limited (KPMG)

However, we highlight that there are a number of challenges in applying the requirements of the standard in respect of responses to the assessed risks of material misstatement, as follows:

- In requiring the auditor to perform "one or more" of the approaches described at paragraph 18 of the standard, there may be differing interpretations as to how auditors make the determination as to which further audit procedures to perform. In particular, different interpretations of these requirements may blur the lines between the requirement at paragraph 18(b) to test how management made the accounting estimate, in particular, how management addressed estimation uncertainty, and the requirement at paragraph 18(c) to develop an auditor's point estimate or range, for which the auditor may use management's methods, assumptions and data, or the auditor's own.
- Furthermore, when management's application of the method involves complex modelling, there may be challenges for the auditor in applying the requirements, in particular, of paragraph 23-26 of the standard, as these may be interpreted as requiring the auditor to reperform all aspects of the calculations of the model, which may not be necessary or practicable. This may be the case, in particular, when large volumes of data are processed by a highly complex model (which may run at huge scale, may be highly automated, and which often requires use of significant infrastructure e.g., supercomputers and data warehouses) and/or when the model itself is proprietary. In these circumstances, audit procedures may more appropriately be directed to testing management's governance and controls in respect of the model, including review controls.
- While most, if not all, estimates have a method, assumptions and data, the risks of material misstatement related to estimation uncertainty for less complex estimates are often isolated to significant assumptions, and the further audit procedures to address risks of material misstatement relating to the method or data for these less complex estimates may be simple and not necessarily any different than if the class of transaction, account balance or disclosure did not contain an estimate (i.e., there may be little to no judgment involved in the selection or application of the methods or selection of the data and therefore they are not a source of estimation uncertainty).

However, when a class of transaction, account balance or disclosure is identified as containing an estimate, if the auditor decides to test how management made the accounting estimate, paragraphs 22-26 direct the auditor to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to each of the selection and application of methods, significant assumptions and data used by management in making the estimate.

- We also highlight that management's point estimate may be based on inappropriate methods, assumptions or data, but, in the event that the auditor has developed an independent expectation in terms of a point estimate or range, using the auditor's own methods, assumptions and data, management's point estimate may fall within the auditor's range. The standard does not include content to guide the auditor as to appropriate next steps to take in this scenario, including relevant considerations when management discloses the inappropriate methods, assumptions or data in the notes to the financial statements.
- The standard does not address relevant considerations for grouping similar estimates for sampling, which may lead to inefficiency and excessive documentation when dealing with large numbers of similar items (such as tax provisions or financial instruments).

Luna Space Financial Company

Minor challenges mainly relate to understanding how to respond to assessed risks of complex accounting estimates. Most responses are handled by external auditors; internal finance team follows standard internal review procedures.

PricewaterhouseCoopers International Limited (PwC)

Some engagement teams tend to identify too many significant assumptions and do not feel confident in categorising assumptions as significant vs. non-significant. We observe that this can dilute focus and drive additional, unnecessary work effort. This typically arises in relation to estimates with higher estimation uncertainty and/or complexity. In particular, where outcomes are sensitive to multiple interdependent assumptions, inputs are less observable, or management's method involves complex modelling, it is more difficult to distinguish assumptions that truly drive the measurement of the estimate and therefore the potential source of related risks from those that are ancillary.

RSM International Limited (RSM)

Minor challenges were noted in determining and articulating the most appropriate response to assessed risks of material misstatement from the testing approaches set out in the standard, particularly for complex estimates such as valuations. While practitioners understand the available approaches—testing how management made the estimate, developing an auditor's point estimate or range and obtaining audit evidence from subsequent events—there may be difficulty in distinguishing between these approaches in practice, especially where auditor's experts are involved. This is primarily a matter of execution and documentation, rather than a lack of clarity in the standard, and is more likely to arise for estimates with a higher degree of complexity.

Similarly, minor challenges were observed in applying specific testing approaches. For example, when using subsequent events as audit evidence, auditors are required to evaluate such evidence in the context of changes between the reporting date and the date of the event, which may not always be consistently applied in practice. In testing how management made the estimate, challenges are consistent with those noted in relation to professional scepticism, including determining the appropriate extent of challenge where management uses experts and clearly distinguishing between methods, assumptions and data. These

issues are not indicative of deficiencies in ISA 540 (Revised), but rather reflect the judgement required in applying the standard.

In relation to complex modelling, particularly in valuation contexts, audit teams may default to re-performing management's model through the use of experts, rather than focusing on understanding key drivers, evaluating sensitivities and assessing the reasonableness of assumptions. This reflects uncertainty in practice regarding the most appropriate audit approach, rather than a lack of direction in the standard, and is more prevalent in estimates involving higher estimation uncertainty and complexity.

Minor challenges were also identified in determining when to develop an auditor's point estimate or range and in evaluating such estimates once developed. In some cases, particularly where management's process is less robust, auditors may default to developing their own estimate, which may give rise to practical and independence-related considerations, as well as challenges in evaluating and communicating differences between auditor and management estimates. These challenges are context dependent and are more likely to arise in complex estimates, rather than being attributable to the requirements of the standard.

Finally, moderate challenges were observed in evaluating identified misstatements related to accounting estimates, particularly where audit evidence supports a point estimate or range that differs from management's estimate or where the auditor's range is wide. These challenges are primarily driven by the need for judgement in evaluating and communicating such differences and are more likely to arise in complex estimation scenarios or where management's processes are less robust.

Wing Tam (Principal, Forvis Mazar)

For complex estimates, developing an auditor's point estimate or range is difficult without specialist valuers. Obtaining sufficient evidence to support an auditor-developed range is also challenging when management's assumptions are unclear.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

We observed challenges in determining the most appropriate audit response to assessed risks related to accounting estimates, particularly whether to test management's process or develop an independent auditor point estimate or range. Practical difficulties also remain in developing and supporting auditor ranges, including determining how tight such ranges should be and how they should be evaluated where they differ from management's estimates.

In addition, we observed challenges in understanding and testing complex models and related data used by management. Concerns were also raised regarding maintaining objectivity where auditors propose adjustments based on auditor-developed estimates or assumptions.

Association of Chartered Certified Accountants (ACCA)

Stakeholders identified challenges in responding to assessed risks of material misstatement for accounting estimates, particularly in relation to estimates involving higher levels of estimation uncertainty, complexity, specialised methodologies or significant management judgment.

A recurring theme was the challenge of testing how management developed accounting estimates, including evaluating the appropriateness of methodologies used, assessing the reasonableness of assumptions, and obtaining sufficient evidence regarding the accuracy and completeness of the underlying data. These

challenges become more pronounced where estimates are supported by complex models or involve specialised knowledge.

We also note practical difficulties in determining the most appropriate audit response for different types of estimates, including how audit procedures should vary between lower-risk and higher-risk estimates. In particular, questions were raised regarding when it is appropriate to rely on testing management's process and when it may be more appropriate for the auditor to develop an independent point estimate or range.

Developing and evaluating auditor point estimates and ranges continues to be a challenging area. There are difficulties in determining the appropriate range of reasonable outcomes, supporting the assumptions and methodologies used in developing auditor ranges, and evaluating differences between management's estimate and the auditor's point estimate or range, particularly where there is significant estimation uncertainty.

Other challenges relate to the use of specialists and experts. These include determining when specialist involvement is necessary, identifying the appropriate expertise required, and effectively evaluating and challenging the work performed by management's experts or auditor's experts, particularly in relation to complex methodologies and models.

Chartered Accountants Australia and New Zealand (CAANZ)

As discussed in previous responses, there are challenges in determining the work effort to be applied for lower risk estimates. For higher risk/more complex estimates, the following challenges have been noted.

In relation to auditor's experts:

- Determining when an auditor's experts is required
- Determining the appropriate expert to use (for example in smaller jurisdictions or for highly specialised assets, where the pool of experts is limited and management have employed an expert).
- Clarifying the scope of the expert's work.

In relation to management's experts:

- Challenging the work of an expert in highly complex estimates, including where 'black box' methodologies or technologies are used in forming the estimate.

In relation to auditor's point estimates or ranges:

- Challenges in determining when it is appropriate for auditors to develop their own estimate or range
- Determining the expected level of precision, particularly where there are high levels of inherent uncertainty
- Lack of clarity on how differences between the auditor's point estimate and management's estimate should be resolved.

CPA Australia

For more complex estimates, a recurring challenge is the completeness, accuracy and reliability of data used in models, particularly where estimates rely on external specialists, large data sets, macroeconomic inputs or when client using proprietary models or 'black box' models.

This is especially relevant for complex fair value and other valuation-based estimates, where auditors may have limited visibility into model design and may need significant work to understand and test management's methodology. Challenges also arise where the auditor develops an independent point estimate or range. Practitioners may find it difficult to determine when this is the most appropriate response,

how narrow the range should be, and how to evaluate differences between the auditor's estimate and management's estimate in a practical and supportable way.

Related issues can also arise when evaluating whether management's disclosures about estimation uncertainty remain adequate, particularly where those disclosures do not align well with the auditor's own analysis.

These issues are most pronounced for estimates with greater uncertainty or complexity, but some proportionality issues also arise for simpler estimates when selecting the most appropriate response.

Institute of Chartered Accountants in England and Wales (ICAEW)

Determining response(s) to assessed risks, paragraph 18

The revised standard does not mandate either:

- testing how management made the accounting estimate; or
- developing an auditor's point estimate or range.

For estimates with very low estimation uncertainty such as valuations based on observable market prices, it is often more efficient for auditors to form their own independent estimates rather than testing management's processes. However, auditors must still fulfil the requirement to obtain a detailed understanding of management's process to produce that estimate which is often disproportionate.

Determining whether to test the operating effectiveness of controls

Estimates by nature, or certain elements thereof, do not always lend themselves well to controls that can be used by auditors. Controls over how data is sourced and maintained are often easily identifiable and decisions to test operational effectiveness are relatively easy to make, based on need or efficiency. For key assumptions though, less assurance can be provided based on the operation of a control, the executors of which are typically subject to bias.

Evaluating identified misstatements

We suggested in our 2017 response that the IAASB should more clearly address situations in which high levels of estimation uncertainty result in the range of reasonable estimates being many times materiality for the entity as a whole.

This issue still presents a challenge, particularly in financial services audits.

Institute of Chartered Accountants of Ghana

The nature of items or transactions, the volume of transactions, size of the organisation, and the complexity of transaction all affect the risk of material misstatement. These risks are compounded for smaller firms with little resources to measure, determine, assess, and estimate the impact of these factors on the performance of the organisation. So estimates that have a high degree of estimation uncertainty or complexity create a situation that makes risk of material misstatements very high and particularly for smaller firms

The challenges that affect the level of risk of material misstatement relating to the auditors' point of estimate relate to estimation uncertainty.

Institute of Singapore Chartered Accountants (ISCA)

Practical challenges have been observed where management engages experts to develop estimates, particularly in relation to the extent and nature of evidence expected from the auditor's specialists when evaluating such estimates.

International Federation of Accountants (IFAC)

IFAC is aware of some practical challenges in responding to assessed risks of material misstatement for accounting estimates. However, the extent of challenge varies depending on the response approach and the nature of the estimate. These are inherently greater for estimates with a high degree of estimation uncertainty. In our view, these challenges mostly relate to the application of well-understood requirements and not the standards themselves.

Using evidence from events occurring up to the date of the auditor's report may be relatively straightforward in many cases, while testing how management made the estimate or developing the auditor's own estimate or range can be more challenging, particularly where management's process is informal or where the estimate involves significant judgment, complex modelling, or difficult assumptions and data.

Malaysian Institute of Accountants (MIA Malaysia)

Another challenge encountered relates to the insufficient clarity in the standard regarding how auditors should differentiate the nature, timing, and extent of audit procedures for significant accounting estimates, compared with non significant estimates or non significant elements of estimates. While ISA 540 introduces the concept of a significant accounting estimate (ISA 540.17) and requires heightened auditor attention based on the assessment of inherent risk (ISA 540.16), the standard provides limited explicit guidance on how inherent risk assessments should be translated into clearly differentiated and scalable audit responses. In practice, auditors often encounter difficulty in assessing inherent risk across the spectrum of accounting estimates, particularly in determining how inherent risk factors such as estimation uncertainty, subjectivity, complexity, and judgment (ISA 540.16) should influence the classification of an estimate as significant or non significant. This judgment becomes more complex where estimates involve a mix of lower risk and higher risk elements, or where judgment is present but not to a degree that clearly elevates the estimate to "significant" status. As a result, auditors may struggle to articulate a clear linkage between inherent risk assessment and the resulting audit strategy.

Although ISA 540 requires further audit procedures to be responsive to the assessed risks of material misstatement (ISA 540.23), practical challenges arise in determining the minimum or expected work effort for non significant estimates. This is particularly the case where such estimates still involve meaningful judgment, subjectivity, or data complexity, but do not meet the threshold for a significant accounting estimate. The standard places clear emphasis on enhanced procedures for significant estimates—such as obtaining a detailed understanding of management's process (ISA 540.20), evaluating assumptions, methods, and data in depth (ISA 540.24), and performing a robust assessment of management bias (ISA 540.25, ISA 540.34) yet provides limited guidance on how these procedures should be modified, reduced, or simplified for non significant estimates. Further complexity arises where an estimate as a whole is not deemed significant, but individual elements of the estimate (for example, specific assumptions or data sources) involve elevated judgment or uncertainty. While the application material recognises that inherent risk factors may vary at the assertion or component level (ISA 540.A12–A13), the standard does not offer sufficient operational guidance on how such risk assessments should drive differentiated procedures at the element level, or how auditors should document the rationale for applying less extensive procedures to non

significant components. As a result, auditors may face uncertainty in determining whether the audit evidence obtained for non significant estimates or elements is sufficient and appropriate (ISA 540.35), particularly in inspection or regulatory review contexts. The absence of clearer guidance linking inherent risk assessment to commensurate audit procedures can lead to inconsistent application in practice and challenges in demonstrating that audit responses are both risk responsive and proportionate. Greater clarity within ISA 540 on how auditors should operationalise inherent risk assessments—from classification of significance through to determination of audit procedures—would support consistent judgment, enhance audit quality, and improve documentation defensibility.

Malta Institute of Accountants (MIA Malta)

The main practical challenges in responding to assessed risks and forming overall conclusions under ISA 540 (Revised) arise in determining the most appropriate audit approach and evaluating outcomes, particularly for complex, forward-looking, or model driven estimates. In practice, auditors often face difficulty deciding when a controls-based approach is appropriate or efficient, when it is preferable to develop an independent point estimate or range rather than test management's process, and how to evaluate results where ranges of reasonable outcomes are wide or where individual differences are small but cumulatively informative. These challenges are further intensified by emerging use of AI-driven or "black box" models, where limited transparency over underlying logic makes it difficult to obtain sufficient understanding and audit evidence, thereby increasing reliance on independent auditor-developed estimates.

In addition, evaluating and documenting wide ranges, such as in impairment assessments remains complex, as small changes in assumptions can produce significant variations, making it difficult to robustly support judgments about the acceptable range and increasing vulnerability to inspection challenge. These issues are most pronounced in high-uncertainty and highly complex estimates and reflect practical application challenges rather than deficiencies in the standard itself.

Also, there is often difficulty in identifying and focusing on the assumptions that truly drive the estimate, with some engagement teams tending to classify too many assumptions as significant. This can dilute audit focus and lead to unnecessary work effort, particularly in complex estimates where inputs are less observable, assumptions are interdependent, or models are more sophisticated.

8. Others

ASK KSA Consulting Inc.

It is challenging to perform the auditor's range/point estimate as many times it appears to then become an independence issue... is it management's estimate or the auditor's estimate?

EITMED

The response requirements in ISA 540 (Revised) are generally clear and well structured. However, some practical challenges remain in determining the most appropriate mix of procedures and in calibrating the extent of work to the assessed risk. In particular, developing an auditor's point estimate or range, and evaluating misstatements where management's estimate falls outside the auditor's expectation, can be demanding and often require significant professional judgment. These challenges are more pronounced for estimates involving high estimation uncertainty, complex models, or highly subjective assumptions. Overall, the standard is workable, but further practical examples on applying the response requirements to complex estimates would be helpful.

D. Other Challenges

6. Accounting Firms

Deloitte Touche Tohmatsu Limited (DTTL)

Emerging Technologies:

Management's development of an estimate may involve complex modelling. With the use of emerging technologies, these "black box" models used in developing estimates are becoming increasingly challenging for the entity and the auditor.

KPMG International Limited (KPMG)

As the use of emerging technology in this area continues to evolve at pace, these challenges are expected to increase significantly in the foreseeable future.

RSM International Limited (RSM)

The challenges identified are concentrated in estimates with a higher degree of estimation uncertainty and complexity and are attributable to practical application and professional judgement, rather than to any lack of clarity or sufficiency in ISA 540 (Revised).

7. Professional Accountancy Organizations

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Some disclosures in the financial statements are highly detailed and dense, which may hinder users' understanding of the financial information. While the reporting requirements are met, the content is not always effective in enabling users to clearly understand the information being disclosed.

Virginia Society of CPAs Audit and Accounting Committee

There is some incremental work to properly analyze and document the requirement. This was expected.

8. Others

Saudi Awwal Bank (SAB)

Limited and high level availability of information.

ECL

FV measurement

Goodwill

E. No Specific Responses

1. Monitoring Group

International Organization of Securities Commissions (IOSCO) Committee 1

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of Azerbaijan Republic

We don't have any problems with this standard.

5. Jurisdictional and Other Standards Setters (JSS)

Japanese Institute of Certified Public Accountants (JICPA)

NA

Royal Netherlands Institute of Chartered Accountants (NBA)

N/A

South Africa Institute of Chartered Accountants (SAICA)

No other issues observed.

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

None

BKR ISIK Consulting (International Auditor Company)

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

None

ELVI Audit FINANS LLC

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

Same as my previous response

Natiq Əliyev (Practitioner)

Praktiki izahlı qeydlər olması

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Zamin Huseynov (Director, Crowe LLP)

no

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

European Federation of Accountants and Auditors for SMEs (EFAA)

N/A

Ibracon - Brazil Institute of Independent Auditors

Institute of Certified Public Accountants of Kenya (ICPAK)

Institute of Certified Public Accountants of Uganda (ICPAU)

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

Not applicable

8. Others

Trust Consulting and Training LLC

This question is difficult to answer.

Question 27

Briefly describe these or any other issues or challenges you encountered or observed related to communications, specialized skills or knowledge (including using the work of an auditor's expert) and documentation.

Significant Themes

- [A. Challenges Related to Scalability and Proportionality](#)
- [B. Challenges Related to Risk Assessment Procedures](#)
- [C. Challenges Related to the Auditor's Response](#)
- [D. Other Challenges](#)
- [E. Suggestions for Course of Actions](#)
- [F. No Specific Responses](#)

A. Challenges Related to Scalability and Proportionality

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of the Czech Republic

Some minor challenges may arise in determining what matters to communicate and when to involve an auditor's expert, particularly for complex or subjective estimates. Preparing audit documentation can feel extensive for simpler estimates.

Lesotho Institute of Accountants

For smaller firms, limited access to specialists can create additional difficulties, including evaluating the competence, objectivity, and adequacy of the work performed by experts. Practical issues may also arise in

defining the scope of an expert's work, assessing their findings, and integrating those findings into the overall audit conclusion.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

The implementation of ISA 540 (Revised) has highlighted challenges related to obtaining and evaluating information from management, specialists, and external experts, particularly where accounting estimates involve complex models or significant judgment.

From a documentation perspective, the enhanced requirements can result in extensive documentation, especially for higher-risk estimates, which may be time-consuming and resource-intensive. In addition, communicating complex estimation assumptions, uncertainties, and audit findings to management and those charged with governance in a clear and understandable manner can sometimes be challenging, particularly where technical matters are involved.

Saudi Central Bank (SAMA)

SAMA has observed that smaller audit firms face particular challenges in determining when to involve an auditor's expert for complex actuarial or valuation estimates, and in preparing sufficiently detailed audit documentation that demonstrates how inherent risk factors were considered. Documentation quality remains inconsistent across firms of different sizes

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

1. Communications with Those Charged with Governance, Mgmt., or Other Relevant parties (a in question 26):

- See Q11 for an issue regarding scalability of the requirement in ISA 540 (Revised).38
- No additional issues or challenges were raised regarding the requirement in para. 38 to communicate with those charged with governance.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

The findings of the audit quality inspections over SMPs indicate to a failure related to inadequate documentation of the engagement team's assessment of the risks of bias of the entity's management when making accounting estimates.

6. Accounting Firms

Baker Tilly International (BKTi)

In addition, the enhanced documentation requirements under ISA 540 (Revised) have resulted in a significant increase in audit effort, with some variability in how clearly audit judgments, risk assessments, and conclusions are documented across engagements. These challenges are more evident for estimates involving greater complexity or judgment, although they can also arise where processes and controls are less formally established, such as in SME environments.

BDO International Limited (BDO)

In relation to communication with TCWG, auditors often face difficulty in clearly explaining:

- the nature, complexity, and uncertainty of accounting estimates,
- significant judgments and qualitative considerations, and
- potential management bias and related risks.

These challenges are particularly evident for complex or highly subjective estimates, where careful and effective communication is required to ensure stakeholders fully understand both the risks and the basis for the auditor's conclusions.

7. Professional Accountancy Organizations

Instituto Nacional de Contadores Públicos de Colombia (INCP)

With respect to documentation, one of the main challenges relates to the volume and level of detail required to adequately support professional judgments, risk assessments, audit procedures performed, and conclusions reached. This can create significant operational burdens, particularly for SMPs, as well as inconsistencies in the way similar procedures are documented across audit teams.

International Federation of Accountants (IFAC)

Documentation appears to be the main challenge. Scalability in documentation can be as challenging as scalability in audit procedures, particularly for simple or lower-risk estimates where auditors may feel pressure to document more extensively than

necessary to demonstrate compliance. Further practical examples of proportionate documentation would be helpful.

Malta Institute of Accountants (MIA Malta)

Finally, documentation remains a key challenge, with a need to strike an appropriate balance between inspection-ready rigour and proportionate, readable documentation, as well as to reduce variability in what is considered sufficient in practice, particularly for both complex and less complex estimates.

8. Others

EITMED

Documentation requirements are generally manageable, although the level of detail expected can be demanding where estimates involve multiple assumptions, models, and judgments. These issues are more pronounced for complex estimates than for routine or less judgmental estimates.

B. Challenges Related to Risk Assessment Procedures

5. Jurisdictional and Other Standards Setters (JSS)

Institut der Wirtschaftsprüfer (IDW)

In our view, the separation of risk assessment processes in audit methodologies and software, reflecting the respective requirements of ISA 315 (Revised 2019) and ISA 540 (Revised), has increased complexity and the risk of inconsistencies in documentation. The need to document inherent risks under two related

but distinct frameworks can be time-consuming and is not always intuitive, particularly in engagements involving straightforward accounting estimates.

We observe that the lack of integration between the risk assessment requirements of ISA 315 (Revised 2019) and ISA 540 (Revised) can therefore result in the duplication of procedures and documentation effort. These challenges are particularly pronounced for small and medium-sized practices auditing less complex entities, where accounting estimates are often relatively simple and estimation uncertainty is limited. In such circumstances, the performance and documentation of separate risk assessment processes may be disproportionate to the risks involved and may not enhance audit quality.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

We also observed significant practical challenges related to documentation requirements, particularly in relation to documenting risk assessments, auditor ranges and the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019).

Global Accounting Alliance (GAA)

In our view, the separation of risk assessment processes in audit methodologies and software, reflecting the respective requirements of ISA 315 (Revised 2019) and ISA 540 (Revised), has increased complexity and the risk of inconsistencies in documentation. The need to document inherent risks under two related but distinct frameworks can be time-consuming and is not always intuitive, particularly in engagements involving straightforward accounting estimates.

We observe that the lack of integration between the risk assessment requirements of ISA 315 (Revised 2019) and ISA 540 (Revised) can therefore result in the duplication of procedures and documentation effort. These challenges are particularly pronounced for small and medium-sized practices auditing small and medium-sized entities, where accounting estimates are often relatively simple and estimation uncertainty is limited. In such circumstances, the performance and documentation of separate risk assessment processes may be disproportionate to the risks involved and may not enhance audit quality.

Nordic Federation of Public Accountants (NRF))

Documentation requirements continue to present practical challenges, especially when documenting risk assessments, and considerations related to the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019).

C. Challenges Related to the Auditor's Response

4. Regulators and Audit and Assurance Oversight Bodies

Independent Regulatory Board for Auditors (IRBA)

Specialised skills or knowledge, including using the work of an auditor's expert: We observed significant practical challenges in applying the requirements related to the use of experts. A central theme is the tension between the need to rely on experts in areas requiring specialised knowledge and the auditor's responsibility to evaluate the work performed, particularly where the subject matter is highly technical and outside the auditor's core expertise.

In practice, this creates uncertainty about the depth of procedures required to assess the expert's methods, assumptions and conclusions, what constitutes sufficient and appropriate audit evidence, and how to strike an appropriate balance between evaluating the expert's work and, in effect, re-performing it.

Additional difficulty arises where management's expert and the auditor's expert apply different assumptions or methodologies, resulting in conflicting views that are not easily resolved. In such cases, auditors may face uncertainty in determining how to evaluate competing expert views, how to conclude on reasonableness, and how to document the basis for the conclusions reached.

We also noted inconsistency in practice in how expert work is evaluated and documented, including situations where expert reports are placed on file without adequate assessment or where the auditor does not clearly demonstrate how the expert's findings were considered in forming audit conclusions. Concerns were also raised about the increasing extent of documentation expected in assessing experts, particularly where the expert is highly qualified and experienced, giving rise to questions about proportionality.

Further complexity arises in delineating the roles and responsibilities between the auditor and the expert, especially where the expert performs procedures that are integral to the audit approach, leading to uncertainty about whether such experts are, in substance, functioning as part of the engagement team.

Inspection findings further indicate that auditors do not always sufficiently evaluate the work of management's experts or auditor's experts, including assessing the underlying methods, assumptions and data used. In some instances, expert reports are relied upon without adequate challenge or integration into the overall audit conclusion.

Lesotho Institute of Accountants

Challenges also arise in determining when specialized skills, knowledge, or the involvement of an auditor's expert are necessary, particularly for estimates involving a high degree of estimation uncertainty, complexity, or subjectivity, such as impairments, fair value measurements, expected credit loss provisions, actuarial valuations, financial instruments, and economic forecasting. For smaller firms, limited access to specialists can create additional difficulties, including evaluating the competence, objectivity, and adequacy of the work performed by experts. Practical issues may also arise in defining the scope of an expert's work, assessing their findings, and integrating those findings into the overall audit conclusion.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

Auditors may also encounter difficulties in assessing the competence, capabilities, and objectivity of management's experts and determining the extent of reliance that can be placed on their work.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

2. Use of experts (b in question 26): In circumstances where matters described in ISA 540.A51 exist, there is an inappropriate determination of whether the engagement team requires specialized skills or knowledge to:

- o perform the risk assessment procedures;
- o identify and assess the risks of material misstatement;
- o design and perform audit procedures to respond to those risks, or

o evaluate the audit evidence obtained (ISA 540. 15);

- Inadequate documentation of the auditor's judgments in determining whether specialized skills or knowledge are required when the selection and application of methods, significant assumptions, or the data is affected by complexity to a higher degree (ISA 540.A151)

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Other issues or challenges related to specialized skills or knowledge (including using the work of an auditor's expert): When experts are engaged, practical challenges may arise in determining the appropriate nature and extent of audit procedures required to evaluate the expert's work and conclusions. This is particularly the case when experts are engaged in areas outside the auditor's expertise, such as complex valuations, where the work is heavily reliant on the expert's specialised knowledge. In practice, auditors may find it difficult to determine how far they are expected to evaluate the expert's assumptions, methods, and conclusions, making it challenging to assess whether sufficient and appropriate audit evidence has been obtained in this aspect.

Instituto Mexicano de Contadores Públicos (IMCP)

Involvement of more experienced team members, specialist or experts has been more prominent with the implementation of the ISA 540 revised; however, there may be cases where the firms do not have the necessary level of expertise or the estimate is derived from such complex method or assumptions that it has been necessary to bring an external auditor's expert to provide assistance to audit the estimate. Audit costs have increased and, in some cases, management has not been in agreement to repay such costs as they consider that the requirements form the standard, and therefore compliance, are on the auditor's side.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

AUDITORS FACE PRACTICAL CHALLENGES WHEN USING EXPERTS

We identified three main challenges in using an auditor's expert.

- Auditors can find it difficult to determine when an expert is needed. For example, when management uses a valuation expert, it may be unclear whether the auditor's prior experience is sufficient or whether an auditor's expert is also needed. Paragraph A62 recognises valuation skills as an example of expertise the auditor may not possess.
- Auditors may face difficulty selecting an appropriate auditor's expert, particularly where there is divergence in practice or where different methodologies may be acceptable.
- Lack of clarity on the scope of work expected by an auditor's expert versus the audit team, for example experts often do not test the reliability of the underlying data so it is important that this is covered by the auditor.

6. Accounting Firms

BDO International Limited (BDO)

The use of auditor's experts has increased under ISA 540 (Revised), which has been beneficial in supporting consistent audit quality in complex areas such as valuations and impairment. However, practical challenges remain, including:

- inconsistent practices in how auditors plan, oversee, review, and challenge the work of their experts, • uncertainty about the extent of auditor responsibility when relying on expert input, particularly where the auditor's expert is evaluating the work of a management expert, and
- confusion between the roles of management's experts and the auditor's experts, leading to inconsistencies in approach and documentation.

In addition, there are challenges in:

- determining what constitutes sufficient audit procedures beyond involving an expert, and
- establishing the appropriate level of documentation to demonstrate effective evaluation and challenge of expert work.

Balancing robust documentation requirements with effective communication and stakeholder relationships can further increase complexity in practice.

Overall, while ISA 540 (Revised) has strengthened the framework for communication with management and TCWG and expert involvement, its application in practice remains inconsistent, with a need for clearer expectations and more consistent approaches in these areas.

Deloitte Touche Tohmatsu Limited (DTTL)

Management's Expert:

The auditor's evaluation of a management's expert, including assessing their competence, capabilities and objectivity, as well as obtaining an understanding of and assessing their work, will become more challenging due to complexities arising from the use of emerging technologies in developing estimates.

Grant Thornton International Ltd (GTI)

As described in our response to Q9, one challenge related to ISA 540 (Revised) relates a presumption by regulators in certain jurisdictions that the use of an auditor's expert is expected even though the standard does not include any such implicit or explicit requirements.

RSM International Limited (RSM)

In relation to specialised skills or knowledge, including the use of an auditor's expert, challenges were assessed as moderate. In particular, there may be a tendency for engagement teams to default to involving auditor's experts, especially in valuation contexts, without sufficiently considering whether such involvement is necessary. Conversely, where auditor's experts are used, challenges may arise in clearly defining the scope of their work and ensuring that it aligns with audit objectives, materiality considerations and documentation requirements. It was also noted that auditor's experts, particularly those from non-audit backgrounds, may not always be fully attuned to audit-specific requirements. These challenges are not unique to ISA 540 (Revised) and are consistent with broader considerations under ISA 620, Using the Work of an Auditor's Expert, with the underlying issue relating to application rather than the sufficiency of the requirements.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

We observed practical challenges related to the involvement and use of specialists in the audit of accounting estimates, particularly for complex estimates involving significant judgment, complex models or

specialised data. At the same time, concerns were raised that the standard may create a perception that the use of specialists is required more frequently than necessary.

Association of Chartered Certified Accountants (ACCA)

Challenges were more commonly identified in relation to the use of specialised skills and knowledge, particularly for complex accounting estimates involving sophisticated methodologies, models or significant estimation uncertainty. Stakeholders noted difficulties in determining when specialist involvement is necessary, identifying the appropriate expertise required, and evaluating or challenging the work performed by management's experts or auditor's experts. These challenges can be particularly acute for smaller firms, where access to specialised expertise may be more limited.

Chartered Accountants Australia and New Zealand (CAANZ)

As stated in our response to question 23, the following challenges have been identified in relation to auditor's experts.

- Determining when an auditor's experts is required.

- Determining the appropriate expert to use (for example in smaller jurisdictions or for highly specialised assets, where the pool of experts is limited and management have employed an expert).

- Clarifying the scope of the expert's work.

Documenting how the work of experts is challenged and how professional scepticism has been exercised are the key areas identified in relation to documentation.

Institute of Chartered Accountants in England and Wales (ICAEW)

Determining when it is appropriate to involve an auditor's expert

Please see our response to question 9.

Institute of Chartered Accountants of Ghana

The issue has to do with identifying the correct expert to use for a specific risk area. For example, if the entity is Insurance, the work of the Actuarist comes into play to estimate the insurance liabilities.

Institute of Singapore Chartered Accountants (ISCA)

A practical challenge arises in situations where management engages an expert and the auditor does not have sufficient access to the underlying information or methodologies used by that expert. In such cases, the auditor may engage their own expert to evaluate the estimate; however, limitations in access and differences in approach or assumptions can make it difficult to fully reconcile or resolve differences between the auditor's expert's work and that of management's expert. This can create challenges in concluding on the reasonableness of the estimate and in documenting how such differences were addressed.

International Federation of Accountants (IFAC)

Specialized skills or knowledge are most relevant where estimates involve complex valuation techniques, specialist models or technology-enabled approaches. However, we note a potential unintended consequence that ISA 540 (Revised) may be interpreted as encouraging specialist involvement in more circumstances than is necessary. Further practical guidance could help auditors determine when specialist input is needed and proportionate.

Malta Institute of Accountants (MIA Malta)

In relation to specialised skills and experts, there is some uncertainty around when to involve auditors' or management's experts and how their work should be integrated with the auditor's understanding of management's processes, methods, assumptions and data under ISA 540 (Revised); clearer guidance in this area would be beneficial. Teams

8. Others

EITMED

In addition, deciding when to involve an auditor's expert, and how to appropriately evaluate and rely on the expert's work, may be challenging in more complex engagements.

D. Other Challenges

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

A key challenge relates to effectively communicating with those charged with governance about the degree of estimation uncertainty and the related audit judgments, particularly where complex models and assumptions are involved.

In addition, identifying when to involve auditor's experts and integrating their work into the audit can be challenging, especially where specialized valuation or actuarial knowledge is required.

Chamber of Auditors of the Czech Republic

Some minor challenges may arise in determining what matters to communicate and when to involve an auditor's expert, particularly for complex or subjective estimates. Preparing audit documentation can feel extensive for simpler estimates.

Independent Regulatory Board for Auditors (IRBA)

Documentation of audit procedures and judgements: We consistently identified documentation as a significant challenge in the audit of accounting estimates. While auditors often perform extensive procedures and obtain relevant insights through discussions and analysis, these are not always clearly reflected on the audit file. This creates a disconnect between work performed and evidence documented.

Specifically, we noted practical difficulties in documenting judgemental areas, including how to clearly evidence the challenge applied to management's assumptions and how to link evidence obtained to audit conclusions. Documentation is often fragmented across different parts of the audit file, further reducing clarity and audit trail. These issues appear to persist in practice and are not limited to specific types of firms. In our view, more practical guidance or illustrative examples of what good documentation looks like could assist in improving consistency.

A consistent and pervasive finding across our inspections also includes insufficient documentation of audit procedures performed, audit evidence obtained, and the basis for conclusions reached. In many cases, there is a disconnect between the work performed and the evidence retained on the audit file, particularly in relation to how auditors evaluated management's

Application of ISA 540 (Revised) in group audit contexts: We noted challenges in applying the requirements of ISA 540 (Revised) at group level where accounting estimates are primarily developed and audited at component level. In such circumstances, there is uncertainty about the extent of work and documentation required by the group engagement team, including how to reflect and evaluate work performed by component auditors and how to incorporate procedures such as retrospective reviews. These challenges appear to arise from the interaction between ISA 540 (Revised) and ISA 600 (Revised) in practice.

Future-fit considerations: We also note a broader future-fit consideration. In our view, ISA 540 (Revised) needs to remain sufficiently adaptable across the full spectrum of accounting estimates, from relatively simple or more manual estimates to those involving highly complex or advanced models. While the principles-based framework supports this in concept, practical application becomes more challenging as estimates increasingly rely on sophisticated modelling techniques, specialised data and expert inputs. This creates a risk that the standard may be easier to apply to traditional estimation processes than to more advanced estimation environments unless supplemented by clearer implementation support. This is particularly relevant as accounting estimates increasingly rely on complex or less transparent models and external data sources, which place greater demands on auditors to evaluate underlying methodologies and data integrity.

Lesotho Institute of Accountants

The main challenges encountered relate to communications, the use of specialised skills or experts, and documentation in the audit of accounting estimates.

From a communications perspective, auditors may face difficulties in determining which matters relating to accounting estimates should be communicated to management and those charged with governance, particularly where significant judgment is involved but no material misstatement has been identified. Complex concepts such as estimation uncertainty, management bias, and significant assumptions can also be difficult for non-financial stakeholders to understand, potentially limiting the effectiveness of discussions and oversight.

Documentation remains a significant challenge under ISA 540 (Revised), particularly for complex estimates. Auditors may find it difficult to clearly document how professional skepticism was applied, how inherent risk factors and potential management bias were considered, how management's methods, assumptions, and data were tested, and how conclusions were reached regarding the reasonableness of estimates and related disclosures. Meeting these enhanced documentation requirements while avoiding excessive administrative burden can be particularly challenging for estimates characterized by high estimation uncertainty, complexity, or subjectivity.

UK Financial Reporting Council (UK FRC)

It has been suggested to the FRC that further guidance on the level of documentation required to evidence completion of the specific stand back requirements would be helpful for practitioners. It has been suggested that it is not clear from the standard and guidance whether this procedure is completed for each accounting estimate, complex accounting estimates only or for estimates in general.

5. Jurisdictional and Other Standards Setters (JSS)

Group of Latin American Accounting Standards Setters (GLASS)

Documentation

We believe there may be application issues with respect to audit documentation in paragraph 39(b). Despite the comment in paragraph A150 that auditors are not required to document how each inherent risk factor was considered in the risk assessment in relation to each accounting estimate, we believe that, in practice, this is often the case, resulting in excessive documentation.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- 26(c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (revised): Preparing audit documentation that demonstrates a sufficient and appropriate basis for the auditor's conclusions can present practical challenges, particularly for accounting estimates based on management information derived from simple data sources or determined using straightforward methodologies. Besides, while ISA 540 (Revised) includes application guidance relating to information obtained from an "external information source", auditors may still face practical difficulties in determining the appropriate extent of audit work and the level of documentation required in such cases. These challenges are further compounded when external experts are involved, as additional effort is often needed to determine and obtain sufficient working papers or documentation from the experts to support the auditor's evaluation.

Instituto Mexicano de Contadores Públicos (IMCP)

The amount of documentation to achieve the level of sufficient appropriate audit evidence has also been a challenge as firms vary in the level of detail that is considered to be enough. Audit teams received feedback from quality reviewers in either agreeing or disagreeing with the levels of documentation. It is clear that more complex estimates may need a more detail level of evidence, but it has been hard for the practice to balance the requirements vs the tangible and detailed documentation included into the audit files.

6. Accounting Firms

Baker Tilly International (BKTi)

The main challenges relate to depth of documentation and the effective use of specialist input. Audit teams do not always sufficiently challenge assumptions used in external valuation reports, and reliance on management or third-party experts can occur without adequate evaluation of the underlying methods and data.

Cristian Emmanuel Munarriz (Practitioner)

Documentation

I think that there may be application issues regarding audit documentation in the paragraph 39.b). Despite the comment in paragraph A150 that auditors are not required to document how every inherent risk factor was considered in the risk assessment in relation to each accounting estimate, I think that, in practice, this is usually the case, resulting in excessive documentation

Forvis Mazars Global Limited (Mazars)

Again, here we consider that the new standard clarified the expectations of the original version of ISA 540 and as such it did not have a substantive change in the work performed.

Luna Space Financial Company

Minor challenges mostly relate to internal communication and documentation for complex estimates. External auditors handle specialized skills; internal finance team follows standard review and documentation procedures

RSM International Limited (RSM)

In relation to communications, the use of specialised skills or knowledge, and documentation under ISA 540 (Revised), the challenges identified in practice are generally moderate and implementation-driven, rather than indicative of deficiencies in the standard.

With respect to communications, moderate challenges were noted in determining the nature and extent of matters to be communicated, particularly in relation to the quality of management's estimation processes. While accounting estimates often provide insight into the overall robustness of an entity's processes and controls, auditors may focus primarily on reaching a conclusion on the estimate rather than clearly communicating observations or deficiencies identified during the audit. There is an opportunity for more proactive and transparent communication regarding how estimates are developed and what weaknesses in those processes may imply more broadly. These challenges are driven by practice and behavioural factors, rather than a lack of clarity in the standard.

Documentation was also identified as an area of moderate challenge. In particular, while engagement teams may understand key aspects of the audit of accounting estimates—such as identifying significant assumptions and designing appropriate procedures—this understanding is not always fully or clearly reflected in the audit documentation. Challenges arise in explicitly documenting significant assumptions and demonstrating how audit procedures address those assumptions, which is particularly important in the context of regulatory inspection and the judgemental nature of accounting estimates. This appears to reflect the need for firms and engagement teams to continue embedding into audit practices the more granular documentation requirements introduced by ISA 540 (Revised)¹, compared with the superseded ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures², rather than uncertainty regarding the requirements themselves.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

Stakeholders generally did not identify significant challenges relating to communications with management or those charged with governance. In many cases, the implementation of ISA 540 (Revised) has led to more frequent and robust discussions regarding accounting estimates, estimation uncertainty, assumptions, methodologies and supporting evidence.

Documentation was identified as a significant practical challenge. Stakeholders indicated that it can be difficult to determine the extent of documentation necessary to demonstrate compliance with the requirements of ISA 540 (Revised), particularly in relation to evidencing professional scepticism, the challenge applied to management's judgments, the consideration of contradictory evidence, and the rationale supporting conclusions reached on accounting estimates. Stakeholders also noted that differences of opinion can arise in practice between regulators and practitioners regarding what constitutes sufficient documentation. As a result, auditors may devote considerable effort to documenting procedures and conclusions, particularly in complex areas involving estimates, models and auditor-developed ranges.

Overall, we consider that the principal challenges in this area relate less to the performance of audit procedures and more to evidencing, documenting and demonstrating the work performed and the conclusions reached in a manner that meets regulatory and inspection expectations.

CPA Australia

In our view, the main challenge in this area relates to documentation rather than communications or the use of experts. For documentation, the key difficulty is determining what is proportionate under paragraph 39, especially for simpler or lower risk estimates and in SME environments where management processes and controls may be informal. Practitioners can find it difficult to document clearly the connection between the risk assessment, the audit response and the overall evaluation without creating documentation that feels disproportionate to the nature of the estimate. This can contribute to a perception that the documentation expectations operate too broadly across all estimates, regardless of complexity, and can drive unnecessary work effort in lower-risk areas.

By contrast, communications do not appear to be a major source of difficulty. ISA 540 (Revised) has generally supported more structured communication with management and, where relevant, those charged with governance.

Challenges relating to the use of experts tend to arise mainly in more complex estimates involving specialist methodologies, particularly when auditors disagree with management's expert. These are important, but appear less pervasive than the documentation issue.

Institute of Chartered Accountants in England and Wales (ICAEW)

Preparing appropriate audit documentation

We have no significant issues with the documentation requirements of the standard. However, meeting these requirements in relation to estimates which are themselves a collection of several smaller estimates can be challenging.

Institute of Chartered Accountants of Ghana

At times, identifying the appropriate levels of management to communicate to to get the right responses is a challenge. The standard should help in identifying the right or appropriate level to communicate and the timing, manner, and nature of reporting and what to communicate. Identifying the right expertise to engage to dealing with complex transactions or situations, particularly those involving different disciplines or knowledge area becomes a significant risk issue. These may affect the results that the auditor may get if he does not engage appropriately.

International Federation of Accountants (IFAC)

IFAC has not identified significant concerns in relation to communications about accounting estimates. The more relevant practical issues relate to documentation and, in some cases, specialized skills or knowledge.

Malta Institute of Accountants (MIA Malta)

The main challenges observed relate less to whether requirements exist and more to how they are applied in practice in a focused, consistent, and efficient manner. From a communication perspective, the difficulty lies in presenting matters in a clear, decision-useful way.

Would also benefit from more practical examples illustrating different approaches to auditing complex estimates such as testing management's process, developing an independent estimate, or using subsequent events and how to bring together the resulting evidence coherently.

8. Others

ASK KSA Consulting Inc.

Always a challenge to document but that is not unique to this standard.

EITMED

Overall, the requirements in ISA 540 (Revised) are workable and clear. However, some practical challenges may arise in determining the extent and timing of communications with those charged with governance, particularly for estimates involving significant judgment or high estimation uncertainty.

Saudi Awwal Bank (SAB)

The auditor may rely in area such as ECL, FV measurement, and economic forecast mainly on expert rather challenging the underlying assumption and estimate critically.

Trust Consulting and Training LLC

Difficult to Determine

E. Suggestions for Course of Actions

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Additional practical guidance and illustrative examples demonstrating what constitutes proportionate documentation for accounting estimates of varying levels of complexity and risk would assist auditors in applying the documentation requirements more consistently and efficiently.

UK Financial Reporting Council (UK FRC)

The FRC will also shortly issue an amended version of ISA 701 for use within the UK. This contains additional application

material for auditors to include further qualitative information relating to the audit of accounting estimates where such estimates also relate to Key Audit Matters. These are in response to an appetite for further insight into the judgements involved in the preparation and audit of accounting estimates that investors have expressed for many years.

5. Jurisdictional and Other Standards Setters (JSS)

Institut der Wirtschaftsprüfer (IDW)

As we mentioned in our response to Question 18A, given the close interrelationship with ISA 315 (Revised 2019), we recommend that the results of this PIR be evaluated in conjunction with the findings of the planned PIR of ISA 315 (Revised 2019).

6. Accounting Firms

RSM International Limited (RSM)

The challenges identified across these areas are well understood, are not specific to ISA 540 (Revised) and do not suggest a need for changes to the standard. Rather, they reflect broader audit practice considerations and are best addressed through enhanced training, communication practices and consistent application in practice.

7. Professional Accountancy Organizations

Malta Institute of Accountants (MIA Malta)

Teams would also benefit from more practical examples illustrating different approaches to auditing complex estimates such as testing management's process, developing an independent estimate, or using subsequent events and how to bring together the resulting evidence coherently.

F. No Specific Responses

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

International Organization of Securities Commissions (IOSCO) Committee 1

4. Regulators and Audit and Assurance Oversight Bodies

Canadian Public Accountability Board (CPAB)

Chamber of Auditors of Azerbaijan Republic

We don't have problems with standard.

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

Refer paragraph 23 above.

Japanese Institute of Certified Public Accountants (JICPA)

NA

Royal Netherlands Institute of Chartered Accountants (NBA)

N/A

South Africa Institute of Chartered Accountants (SAICA)

No other issues observed.

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

None

BKR ISIK Consulting (International Auditor Company)

Crowe Solutions for Professional Consultancy

None

Dr. Mohamed Al-Amri & Co. (Member Firm to BDO International Limited)

None

ELVI Audit FINANS LLC

Ernst & Young Global Limited (EY)

Refer to our response to Question 11 for challenges arising related to use of auditor's experts and documentation from a scalability and proportionality perspective

Refer to our response to Question 15 for challenges specific to documenting the exercise of professional skepticism.

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

Same as my previous response

KPMG International Limited (KPMG)

N/A

Natiq Əliyev (Practitioner)

PricewaterhouseCoopers International Limited (PwC)

No response

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Wing Tam (Principal, Forvis Mazar)

N/A

Zamin Huseynov (Director, Crowe LLP)

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

European Federation of Accountants and Auditors for SMEs (EFAA)

N/A

Ibracon - Brazil Institute of Independent Auditors

Institute of Certified Public Accountants of Kenya (ICPAK)

Institute of Certified Public Accountants of Uganda (ICPAU)

Malaysian Institute of Accountants (MIA Malaysia)

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

Not applicable

Virgina Society of CPAs Audit and Accounting Committee

No significant observations