

Post-Implementation Review of ISA 540 (Revised)¹ – Respondents' Detailed Comments Related to Suggestions 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 96 respondents' detailed comments on selected narrative questions related to suggestions for course of actions 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 F of Agenda Item 8**.

Selected Narrative Questions about Suggestions for Course of Actions

For Accounting Firms, Jurisdictional and Other Standard Setters (JSS), Professional Accountancy Organizations (PAOs), regulators and audit and assurance oversight bodies, academia and others

- (a) [Question 13](#): What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *scalability and proportionality* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?
- (b) [Question 17](#): What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *exercising professional skepticism* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?
- (c) [Question 21](#): What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *risk assessment procedures* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?
- (d) [Question 25](#): What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *responding to the risks of material misstatements and overall evaluation* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?
- (e) [Question 29](#): What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *other matters* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

For Preparers and Issuers of Financial Statements, Including Those Charged With Governance (TCWG) and Users of Financial Statements

- (f) [Question 12](#): What specific suggestions do you have for how the IAASB can best address any issues or challenges related to auditing accounting estimates (e.g., standard-setting, non-

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

authoritative guidance, or other actions?

Question 13

What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *scalability and proportionality* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow-Scope Amendments](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

The primary challenges appear to relate more to practical implementation and proportional application rather than a lack of clarity in the standard itself. To further support consistent application, the IAASB could consider developing additional non authoritative guidance focused on scalability and proportionality, particularly for audits of SMEs and less complex entities.

Additional practical case studies, industry-specific examples and illustrative documentation samples would be beneficial, especially in areas such as IFRS 9 expected credit losses, fair value estimates and simple provisions. Guidance demonstrating how the extent of audit procedures and documentation may appropriately vary based on the complexity and the risk of the estimate would also assist auditors and regulators in achieving more consistent expectations. Further training materials, webinars and implementation tools tailored for smaller and medium-sized audit firms would help improve understanding and result in efficient application of the revised standard across different jurisdictions and engagement types.

A flowchart could be developed to illustrate the key considerations in auditing accounting estimates, including the sequence of steps to be followed. For example, the flowchart could demonstrate the assessment of the risk of material misstatement and how scalability and proportionality are considered in line with the risk assessment. The flowchart could then guide auditors in determining the nature, timing, extent, and level of audit evidence required to obtain sufficient appropriate audit evidence for the accounting estimate.

Lesotho Institute of Accountants

Develop practical examples for simple and low-risk estimates, such as depreciation, basic accruals, leave pay provisions, inventory write-downs and useful lives of assets. Provide examples of proportionate documentation, showing what "sufficient but not excessive" documentation could look like for simple estimates. Issue guidance on how to scale audit procedures, based on estimation uncertainty, complexity, subjectivity and assessed risk of material misstatement.

Develop decision trees or flowcharts to help auditors determine the appropriate level of work for different types of accounting estimates. Provide examples distinguishing simple, moderate and complex estimates, with suggested audit responses for each category. Clarify how auditors may document informal management processes, especially in smaller entities where estimates are not prepared through formal models or committees.

Provide guidance for firms on adapting audit methodologies and software tools, so that templates do not encourage unnecessary over-documentation. Develop training materials for junior audit staff, focusing on how to apply professional judgment when scaling audit work.

Provide examples of when substantive procedures alone may be sufficient, and when understanding and testing controls may be necessary. Encourage regulators and audit inspection bodies to align expectations with the principle of proportionality, so that firms do not feel compelled to over-audit low-risk estimates. Include illustrative case studies covering small entities, less complex entities and recurring low-risk estimates.

Provide guidance on documenting the rationale for limited procedures, where the auditor concludes that the estimate has low estimation uncertainty and low risk of material misstatement.

Overall, a combination of targeted non-authoritative guidance, practical implementation tools, and ongoing stakeholder engagement would enhance consistency and proportionality in the application of ISA 540 (Revised).

Public Accountants and Auditors Board Zimbabwe (PAABZ)

Continue to update the non-authoritative guidance in response to challenges they received from users. In addition, further guidance on distinguishing between low-risk and high-risk estimates could help auditors tailor their procedures more effectively and avoid unnecessary documentation. Such support would enhance consistency in application, improve efficiency, and reinforce the scalability principles embedded within the standard without requiring significant amendments to the existing requirements.

Saudi Central Bank (SAMA)

IAASB should develop sector-specific implementation guidance for regulated industries (insurance, investment funds) and simplified tools for small and medium-sized audit firms.

UK Financial Reporting Council (UK FRC)

The IAASB should consider the issuance of further non-authoritative material to further illustrate how the principles in the standard may be applied, and documented, in a scalable and proportionate manner.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

1. Scalability and proportionality of the risk assessment requirements [Issue raised in response to question 11]:

- Root cause: Misapplication of the ISA
- Suggest: Although the standard does incorporate scalability through the language in ISA 540.13, A7, A20-A22, we suggest the IAASB consider updating the existing Example 1 in ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB NAG

with more examples of how the more important requirements of ISA 540 can be applied to 'Simple Accounting Estimates', including:

- o describe the extent of the understanding necessary under ISA 540.13(i); and
- o clarify what the impact on risk assessment would be if management has not reviewed and responded to the outcomes of previous accounting estimates under ISA 540.13(j).
- Such simple accounting estimates should embody the circumstances described in ISA 540.A20, such as:
 - o Where the process of making the accounting estimates is less complex;
 - o Lower and very low risk accounting estimates; and
 - o Unsophisticated operations (few transactions, events or conditions that give rise to the need for accounting estimates, simple to apply accounting framework and no regulatory factors);
 - o Accounting estimates are less subject to IR factors and there are fewer identified controls in the control activities component.
- In those circumstances, the guidance should address how the auditor determines whether the accounting estimates are reasonable or misstated (ISA 540.35-36)) and other overall evaluations on the accounting estimate.

Australian Auditing and Assurance Standards Board (AuASB)

The IAASB could consider additional examples and case studies to demonstrate the scalability of the standard. The examples need to be complex enough to be helpful - the current examples in ISA 540 are too simplistic.

Group of Latin American Accounting Standards Setters (GLASS)

The IAASB could better address the problems or challenges we have identified by establishing standards and publishing non authoritative guidance.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Develop more practical guidance and/or enhance existing illustrative examples to demonstrate scalable approaches showing how the scope of work and audit documentation for the same accounting estimate vary at different assessed risk levels;
- Add simpler illustrative examples on auditing ECL accounting estimates for general industries to help broaden the guidance beyond the banking and financial institutions sector; and

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Additional examples that are more relatable to SMPs may help providing the specific guidance needed. This can be achieved through additional application materials and non-authoritative material (e.g. case studies).

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

Provide more detailed tools and guidance considering practically of actual challenges faced and not just best case scenario

Baker Tilly International (BKTi)

The IAASB could enhance the effectiveness and consistent application of ISA 540 (Revised) by developing additional non-authoritative guidance focused on scalability and proportionality. In particular, more practical examples illustrating how the standard can be applied to low-risk or routine estimates and in SME environments would be beneficial. While existing materials are helpful, audit teams would benefit from clearer guidance on how to appropriately scale procedures and documentation where estimation uncertainty and risk are low, without defaulting to a compliance-driven approach. Consideration could also be given to providing industry-specific examples and guidance on the use of technology and data in auditing estimates, areas where current materials are more limited.

Finally, the IAASB could consider whether targeted supporting materials are needed to better reinforce proportionality and avoid unintended consequences, such as excessive documentation or reduced focus on simpler estimates.

BDO International Limited (BDO)

There is a clear opportunity for the IAASB to enhance the consistency of application of ISA 540 (Revised) through more targeted and operational guidance.

A key priority is the development of clearer scenario-based guidance focusing on the use of 'real-life' examples, particularly on how to scale audit procedures and documentation based on risk and materiality.

We recommend these examples illustrate:

- what constitutes "sufficient" audit work for lower-risk or less complex estimates,
- practical examples of robust controls, evidence, and audit responses for higher-risk or more complex estimates, and
- guidance on how to efficiently link risk assessment outcomes to the selection of audit approaches. Further clarity on applying the concepts of inherent risk factors and the spectrum of risk in a proportionate manner would help drive more consistent and effective implementation across engagements.

Additionally, the IAASB could consider strengthening the framework by:

- Clarifying expectations of management and TCWG in providing appropriate, audit-ready supporting information, and
- Placing greater emphasis on focusing audit effort on higher-risk estimates, clarifying that work effort remains aligned with risk and is not disproportionately applied.

Overall, enhanced example-driven non-authoritative guidance would support more consistent, proportionate, and efficient application of the standard in practice.

Cristian Emmanuel Munarriz (Practitioner)

I think a combination of standard-setting and non-authoritative guidance would be the best approach for issues 1 and 2, and non authoritative guidance for issue 3 (maybe moving the clarification in p.A150 to the requirements)

Crowe Solutions for Professional Consultancy

No significant changes to the standard appear necessary. Continued sharing of implementation experiences and practical examples may help promote more consistent application in smaller and less complex audits.

Deloitte Touche Tohmatsu Limited (DTTL)

Additional guidance would be helpful to more clearly articulate how the requirements in ISA 540 (Revised) are intended to operate in a risk-based and proportionate manner. Because risks related to accounting estimates exist along a spectrum, the nature, timing, and extent of the auditor's procedures should align with the degree of estimation uncertainty and the assessed risk of material misstatement. In practice, this is particularly important for estimates at the lower end of the risk spectrum. For example, routine accounting estimates with negligible estimation uncertainty, such as certain accruals, generally do not warrant

the same extent of procedures and documentation as estimates involving greater complexity, subjectivity, or inherent risk. The IAASB could best address this challenge by illustrating how to apply the standards effectively.

Ernst & Young Global Limited (EY)

At a minimum, we believe the IAASB should develop non authoritative implementation materials (e.g., case studies) that provide more specific, practice based examples of how ISA 540 (Revised) can be proportionately applied to simple accounting estimates with low complexity, subjectivity and estimation uncertainty (i.e., accounting estimates with low inherent risk). In doing so, it would be helpful to revisit and update the example of the simple accounting estimate in the Simple and Complex Illustrative Examples (May 2020) with a focus on the expected extent of documentation of the procedures.

Forvis Mazars Global Limited (Mazars)

Additional guidance could be issued to make it clear that the standard only applies to 'critical' management judgements and this could then be aligned with the disclosures in the financial statements, linked to management's key judgements etc.

Grant Thornton International Ltd (GTI)

Non-authoritative guidance related to the matters identified in our response to Q11 may help to promote consistent application of the standard.

Housam Halawa (Practitioner)

Provide more detailed tools and guidance

Kia Atlas (Director, RSM)

1. Provide Clearer Practical Indicators for Specialist Involvement

IAASB could include implementation guidance such as examples of when a specialist is likely necessary:

- >Use of complex financial engineering models
- >Significant bespoke or internally developed models
- >Highly judgmental unobservable inputs with no benchmarking
- >Model risk requiring independent validation

Then some examples of when a specialist may not be necessary:

>Standard DCF models using observable market-derived inputs

>Simple private equity valuations with recent transaction evidence

>Instruments where valuation methodology is stable and historically reliable

2. Clarity that Level 3 does not automatically imply high inherent risk because risk assessment should still consider the nature of inputs, model complexity and susceptibility to bias.

3. Providing illustrative case studies on scenarios where there is a simple level 3 equity valuation (for example a Fund with latest financing beginning of their fiscal year) - no specialist needed

KPMG International Limited (KPMG)

We also suggest that the IAASB develop an additional example of a "simple" estimate, such as a simple depreciation estimate as described above, to illustrate both the nature and extent of application of the required procedures to such an estimate, and the related documentation of the auditor's decisions and judgements.

Luna Space Financial Company

To support smaller financial institutions and payments companies, the IAASB could provide additional illustrative examples and practical guidance on scaling audit procedures for complex accounting estimates. Clearer flowcharts or step-by-step guidance for risk assessment and proportionality would also help ensure consistent application without changing the standard

PricewaterhouseCoopers International Limited (PwC)

While we appreciate the IAASB's Simple and Complex Illustrative Examples, issued in May 2020, we believe it would be helpful, to drive greater consistency, for the IAASB to provide some additional illustrative examples that practically demonstrate relevant considerations, application, and specifically documentation, to comply with the requirements for less complex estimates that are assessed as lower on the spectrum of inherent risk.

RSM International Limited (RSM)

We do not consider that the issues and challenges observed in practice warrant changes to the requirements or application material of ISA 540 (Revised). We believe the standard is clear and sufficiently robust that it is capable of being applied across a range of accounting estimates.

As noted in our response to Question 11, the challenge identified in relation to scalability and proportionality for simple, low uncertainty estimates is primarily implementation related. In our view, this challenge arises not from a lack of clarity or insufficiency in the standard, but from the practical difficulties in operationalising a principles-based standard to less complex scenarios.

Accordingly, we do not believe that further standard-setting is necessary to address this matter. Instead, we suggest that the IAASB focus on enhancing non-authoritative guidance and implementation support. In particular, the development of additional illustrative examples that reflect realistic simple estimates and less complex entity environments that may assist practitioners in more effectively applying the standard in a proportionate manner. Such examples may demonstrate more clearly how the nature, timing and extent of audit procedures may be appropriately scaled where estimation uncertainty and assessed risks of material misstatement are lower.

If the IAASB were to revisit the standard for other reasons, it would be helpful to give consideration to whether additional application material focused on simpler scenarios would be beneficial. However, this should be viewed as supplementary to, rather than a replacement for, the existing requirements and application material.

We encourage the IAASB to prioritise practical implementation support, building on existing non-authoritative materials, to further facilitate consistent and proportionate application of ISA 540 (Revised) in practice.

Wing Tam (Principal, Forvis Mazar)

It's better to create an example to set a standard for the public to consider how to address the risk and perform the audit work related to AE.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We generally consider that the challenges identified are attributable, at least in part, to a lack of clarity regarding how certain requirements are intended to be applied in a scalable and proportionate manner for accounting estimates with low estimation uncertainty and lower assessed risks of material misstatement.

To address these challenges, we suggest that the IAASB consider developing additional non-authoritative guidance and practical implementation materials. In particular, examples and case studies illustrating the proportionate application of ISA 540 (Revised) to simple or lower-risk accounting estimates, including examples relevant to small and medium-sized entities would be beneficial. Such guidance could help practitioners better differentiate the work effort required for lower-risk estimates while continuing to obtain sufficient appropriate audit evidence.

Stakeholders also expressed the desire for additional practical examples addressing more complex accounting estimates, including estimates involving sophisticated valuation techniques, specialised methodologies and significant estimation uncertainty. Realistic case studies demonstrating the application of the standard in these circumstances would support more consistent implementation.

Chartered Accountants Australia and New Zealand (CAANZ)

There are two areas where more guidance would be welcome.

- Guidance on scaling the requirements for estimates where the risk of material misstatement is low or at the lower end of the scale to assist practitioners to be able to differentiate the work effort required for simple estimates. If there is evidence that standard setting is required to address this issue, this could be achieved via narrow scope amendments.
- Additional examples on applying the standard to complex estimates, including how valuations should be addressed. Practitioners have expressed a desire for more complex real-life examples/case studies.

CPA Australia

In our view, the core objectives and principles of ISA 540 (Revised) are generally clear and remain fit for purpose. However, practical challenges suggest that, in some areas, the application material and implementation support may not always be sufficient to promote consistent understanding and application in practice.

This appears to arise at both ends of the spectrum:

- For less complex estimates:

Auditors may find it difficult to calibrate a proportionate response, especially in determining what constitutes a proportionate level of work effort, what a proportionate "stand-back" evaluation should look like, how much documentation is needed on methods, assumptions and data, whether controls need to be explored in depth when controls are informal, and how explicitly the linkage between risk assessment and response must be documented. This suggests that the principles are there, but the application material may not always provide enough concrete signposting for low-complexity situations to risk over-auditing and inconsistent application. Additional practical examples on leave provision or straight-line depreciation estimate, where smaller entities may have very limited formal controls would be useful.

- For more complex estimates:

Additional practical guidance and more advanced examples may be needed to support consistent application in areas such as complex models, expected credit loss estimates, valuation techniques and estimation uncertainty, particularly where additional specialist input is required.

This would help auditors apply the standard more consistently across the full range of estimates (simple and complex) without creating unnecessary work for lower-risk areas.

Ibracon - Brazil Institute of Independent Auditors

Examples within guidance should focus not only on different types of entities with accounting estimates complexities, but also on different accounting estimates in a specific entity and their specific audit response, proportional to their complexity and uncertainty.

Examples of such variety include valuation of investments based on an investee's financial results when such investment is measured at fair value and estimated credit losses for Banks.

Institute of Certified Public Accountants of Kenya (ICPAK)

Issuing a non-authoritative guidance

Institute of Certified Public Accountants of Uganda (ICPAU)

Non-authoritative guidance would be very useful in helping practitioners in Uganda to comprehend the requirements in the Standard.

Institute of Singapore Chartered Accountants (ISCA)

The IAASB could consider providing additional implementation guidance and practical examples illustrating how ISA 540 (Revised) may be applied proportionately across different circumstances and levels of estimation uncertainty. Further guidance on the interaction between risk assessment and substantive procedures would also be helpful.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

Malaysian Institute of Accountants (MIA Malaysia)

The IAASB can provide non-authoritative guidance or illustrative examples demonstrating how the requirements of ISA 540 (Revised) can be applied in a proportionate manner for low-risk or routine accounting estimates.

Malta Institute of Accountants (MIA Malta)

We do not see an immediate need to revise ISA 540 (Revised), and instead recommend that the IAASB prioritise the development of non-authoritative guidance and implementation support. In particular, additional worked examples would be valuable in illustrating the application of the standard across a spectrum of estimates, from simple, low-risk accruals to more complex areas, while demonstrating how a proportionate, risk-based approach operates in practice. This should include clearer guidance on how auditors can scale procedures and documentation to the assessed risk of material misstatement, including when it is appropriate to leverage other audit work rather than apply every aspect of the framework in full. Further clarification on documenting proportionate approaches in low-risk scenarios, as well as enhanced guidance on the interaction with ISA 315 and ISA 330, would also be helpful.

The Malaysian Institute of Certified Public Accountants

IAASB can provide non-authoritative guidance or illustrative examples demonstrating how the requirements of ISA 540 (Revised) can be applied in a proportionate manner for low-risk or routine accounting estimates.

For example, depreciation is an accounting estimate that is typically straightforward and based on stable assumptions. In such cases, applying the full extent of procedures may not be necessary where estimation uncertainty and risk of material misstatement are low.

8. Others

EITMED

The IAASB may consider providing additional non-authoritative implementation support rather than significant amendments to the standard. In particular, more practical examples, case studies, and illustrative documentation demonstrating the application of the scalability concept across different types of accounting estimates and entities would be beneficial. Additional guidance on applying the spectrum of inherent risk and determining proportionate audit responses could also help promote greater consistency in practice. Sharing implementation experiences and leading practices observed across jurisdictions may further support effective and consistent application of ISA 540 (Revised).

Saudi Awwal Bank (SAB)

Provide more illustrative example

Clarify expectations for documentation of low risks estimates

Enhance Guidance on on inherent risk spectrum

Example for smaller entities outcome focused Auditing

B. Narrow-Scope Amendments

4. Regulators and Audit and Assurance Oversight Bodies

Independent Regulatory Board for Auditors (IRBA)

Recommendations:

- ISA 540 (Revised) is silent on management-imposed limitations that could arise after accepting an engagement. It may benefit from including enhancements like those that were introduced into ISA 570 (Revised), specifically paras. 16 – 17, that emphasise the requirement to obtain and evaluate management's assessment or if management is unwilling to make an assessment consider the implications for the audit report.
- ISA 540 (Revised) references "relevant ethical requirements" only once in par. A116. It may be worth, in addition to the proposed narrow-scope amendment to the requirements, expanding the application material related to circumstances encountered that may create threats to compliance with the relevant ethical requirements, to assist auditors in identifying and responding to threats to independence, including prohibitions on assuming management responsibilities, that may be more prevalent in smaller entity audits.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

2. Missing scalability and proportionality in other requirements and AM [Issue raised in response to question 11]:

- Root cause: Lack of clarity/insufficiency in the requirement or AM
- [KEY] Suggest: Consider the following narrow scope amendments to ISA 540 requirements and application material:
 - o Update the AM to use more consistent terminology with respect to "simpler" accounting estimates.
 - o Add the same scalability of work-effort found in risk assessment to risk response (ISA 540.18). For example, the following change could be made to paragraph 18:
 - "As required by CAS 330, nature, timing, and extent of the auditor's further audit procedures shall be designed and performed to the extent necessary to obtain sufficient appropriate audit evidence and shall be responsive to the assessed risks of material misstatement at the assertion level, considering the nature and complexity of the entity and the reasons for the assessment given to those risks, including the degree to which the accounting estimate is subject to estimation uncertainty or other inherent risk factors. The auditor's further audit procedures shall include one or more of the following approaches..."
 - o Add scalability to 'significant qualitative aspects of the entity's accounting practices' to limit consideration of what the auditor communicates to those charged with governance (ISA 540.38) for lower inherent risk accounting estimates. For example, the following could be added to ISA 540.A146:
 - "... and related disclosures. Accounting estimates that are affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree, are unlikely to result in significant qualitative aspects of the entity's accounting practices that would be communicated to those charged with governance. Appendix 2..."

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Consider drawing on a similar level of detail to the audit procedures for accounting estimates in the ISA for LCE when developing guidance for small and medium-sized entities or less complex accounting estimates in ISA 540 (Revised), and complementing this with quantitative illustrative examples or case studies.

Institut der Wirtschaftsprüfer (IDW)

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) apply only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Please also see our response to question 21.

Instituto Mexicano de Contadores Públicos (IMCP)

We do not recommend re-opening the standard for a major project, but if needed, set a narrow scope project for strictly necessary amendments. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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

THE STANDARD SHOULD CLARIFY HOW RISK CAN BE ASSESSED AT A MORE GRANULAR LEVEL
We recommend the standard clarifies that, although risk assessment is performed at the assertion level, the auditor may assess risks in methods, assumptions and data at a more granular level to enable the audit to be risk-based and proportionate to the real risks. For example, risk related to one assertion may be higher in only two of five assumptions in a model. Drilling down to this level may be necessary to understand what is driving the risk and to design appropriate responses to address this risk. PRACTICAL EXAMPLES WOULD HELP AUDITORS APPLY A PROPORTIONATE, RISK-BASED APPROACH
In addition, we recommend practical case studies be developed that provide practical examples of complex estimates and how the approach can be scaled and proportionate to the risk identified. This could include examples of estimates with differing risk profiles or examples across large and less complex entities.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Additional examples that are more relatable to SMPs may help providing the specific guidance needed. This can be achieved through additional application materials and non-authoritative material (e.g. case studies).

6. Accounting Firms

Cristian Emmanuel Munarriz (Practitioner)

I think a combination of standard-setting and non-authoritative guidance would be the best approach for issues 1 and 2, and non authoritative guidance for issue 3 (maybe moving the clarification in p.A150 to the requirements)

Ernst & Young Global Limited (EY)

As part of the process of developing the non-authoritative material, the IAASB should specifically consider whether targeted amendments to the standard are warranted to improve the ability to apply the requirements to simple, low risk accounting estimates in a proportionate manner.

KPMG International Limited (KPMG)

To address the scalability challenges we describe above, we recommend that the IAASB explore amendments to the standard and/or supporting materials that would continue to drive appropriate rigor in

risk assessment for complex estimates with high estimation uncertainty, while enabling a more proportionate and streamlined approach to be taken for less complex estimates, that would improve audit efficiency and effectiveness while not compromising audit quality. We believe that such an approach should enable an auditor to use their professional judgement to direct audit procedures performed as part of obtaining an understanding to those specific aspects of the estimate which the auditor considers would drive estimation uncertainty. 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 the significant assumptions.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

Further clarification on scalability and proportionality would be helpful, especially regarding how certain requirements should be applied for simple or low-risk accounting estimates where estimation uncertainty is limited.

We also encourage the IAASB to further consider the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment and documentation requirements, with a view to reducing duplication and supporting a more integrated and efficient approach.

Association of Chartered Certified Accountants (ACCA)

If the IAASB concludes that further clarification cannot be achieved through implementation guidance alone, we suggest that targeted clarifications or narrow-scope amendments could be considered to reinforce the scalability principles already embedded within ISA 540 (Revised). Any such actions should seek to improve consistency and proportionality in application without diminishing the standard's objectives of enhancing audit quality and professional scepticism.

Global Accounting Alliance (GAA)

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) apply only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Non-authoritative materials would also be helpful to demonstrate the scalability of the standard and what proportionate documentation looks like for simple or lower-risk estimates.

Please also see our response to question 21.

Institute of Chartered Accountants in England and Wales (ICAEW)

We do not believe that guidance alone is sufficient to address the substantial scalability and proportionality issues we have identified. We therefore suggest that the IAASB considers the need to revise the standard by:

- moving certain risk assessment requirements such as paragraph 14 to the application material with additional guidance covering when they are relevant, or making them conditional requirements

- clarifying to the application material to explain that the auditor should apply professional judgment when considering the work effort needed to understand management's processes for simpler estimates where the auditor intended to develop independent estimates.

International Federation of Accountants (IFAC)

We outline two specific challenges above, the first relating to application of the standard for simple estimates, and the second relating to documentation.

A narrow scope amendment to modify the scope of application of the standard would be a way to address the first challenge. Application could be limited to only those estimates with significant estimation uncertainty. In other words, estimates where there is a risk of material misstatement that has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk.

Additional requirements should certainly be avoided as these could risk increasing work effort without addressing the main practical challenge, which is how the existing requirements are applied across estimates with very different levels of complexity and estimation uncertainty.

The scope reduction discussed above would also partially resolve the documentation issue as simple estimates would no longer give rise to redundant work effort under the standard. This amendment could be supplemented by practical guidance demonstrating proportionate application where the auditor is not seeking to test management's process. This could illustrate what sufficient, yet proportionate documentation looks like in such cases to help ensure auditors demonstrate compliance without excessive documentation that does not add commensurate value.

IFAC also recommends clarifying the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly to help auditors avoid duplication in risk assessment and in understanding the entity's processes and controls. As mentioned above in our response to Q6, 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).

Finally, IFAC encourages the IAASB to consider additional implementation support on technology-enabled or AI-supported estimation models, particularly where management uses models that may be difficult for auditors to understand, challenge or explain because of their "black box" nature.

Nordic Federation of Public Accountants (NRF)

As noted above, NRF has identified two main practical challenges: the application of the standard to simpler accounting estimates, and the related documentation burden.

To address the first of these, the IAASB could consider a narrow-scope amendment to clarify the intended scope of application of the standard. One possible approach would be to limit full application to estimates with significant estimation uncertainty, that is, estimates where the risk of material misstatement is not at an acceptably low level or at the lower end of the spectrum of inherent risk.

Such a narrowing of scope could also help alleviate documentation challenges, as simpler estimates would no longer give rise to the same level of potentially redundant work effort under the standard.

NRF also notes issues of duplication arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). The separation of risk assessment requirements under the two standards can create duplication, increased documentation burden and operational inefficiencies. Feedback also indicates that audit methodologies and software often separate the documentation processes under ISA 315 and ISA 540, resulting in parallel, and in some cases differing, assessments of inherent risk and additional work effort. In

NRF's view, these issues reflect overlap in the design and structure of the requirements, particularly in relation to risk assessment concepts and related documentation requirements and may therefore not be capable of being fully addressed through non-authoritative guidance alone.

8. Others

ASK KSA Consulting Inc.

Standard setting. If it is in the standard, it has to be done. The scalability and proportionality does not always come through. For example, in performing a retrospective review. It states should be done, but doesn't provide a lot of guidance as to when. I agree this should be done with complex estimates, but not needed for simple estimates.

C. Other Suggestions

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of Azerbaijan Republic

There have been no difficulties.

Chamber of Auditors of the Czech Republic

At this stage, no specific additional actions appear necessary in relation to ISA 540 (Revised).

Saudi Central Bank (SAMA)

Enhanced training programs focused on the practical application of inherent risk factors would also be beneficial.

7. Professional Accountancy Organizations

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials.

Pan African Federation of Accountants (PAFA)

There is a strong call for more implementation support. Training, practical guidance, and case studies are the most urgent needs. Simplification and sector specific guidance would also materially improve application. Importantly, resources should be made available in accessible formats and languages, including French and Portuguese, to ensure effective use across Africa's diverse jurisdictions. Country specific guidance would further enhance relevance and impact.

Virginia Society of CPAs Audit and Accounting Committee

Consistently embed or incorporate by reference the requirements in subsequent applicable exposure draft and standards.

D. 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)

5. Jurisdictional and Other Standards Setters (JSS)

Japanese Institute of Certified Public Accountants (JICPA)

NA

Royal Netherlands Institute of Chartered Accountants (NBA)

See our comments to question 11 above

South Africa Institute of Chartered Accountants (SAICA)

N/A.

6. Accounting Firms

BKR ISIK Consulting (International Auditor Company)

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

None

ELVI Audit FINANS LLC

Natiq Əliyev (Practitioner)

Praktiki izahlı qeydlər olması

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Zamin Huseynov (Director, Crowe LLP)

none

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

Please see our comments under question 7.

European Federation of Accountants and Auditors for SMEs (EFAA)

See comments

Institute of Chartered Accountants of Ghana

8. Others

Trust Consulting and Training LLC

No specific offer

Question 17

What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *exercising professional skepticism* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow-Scope Amendments](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

The challenges relating to professional skepticism appear to arise more from practical implementation considerations than from a lack of clarity in the standard itself. To support more consistent application, the IAASB could further expand non-authoritative guidance with practical examples demonstrating how auditors can effectively challenge management assumptions and identify

potential management bias in different types of engagements. Additional case studies, illustrative examples and industry specific guidance relating to areas such as IFRS 9 expected credit losses, fair value estimates, actuarial assumptions and going concern assessments would be beneficial. Guidance tailored for SMEs and less complex entities would also assist auditors in applying professional skepticism proportionately without creating unnecessary documentation burdens.

Independent Regulatory Board for Auditors (IRBA)

The IAASB could support more consistent application of the professional skepticism requirements through additional non-authoritative guidance, particularly practical examples, application scenarios and illustrative documentation. This would help bridge the gap between the requirements and their implementation in practice, including how to challenge management, what questions to ask, and how to document the auditor's scepticism.

Lesotho Institute of Accountants

The IAASB should address these challenges mainly through additional non-authoritative guidance, illustrative examples and practical training materials.

The standard itself is generally clear, but auditors would benefit from more examples showing how to exercise and document professional skepticism when challenging management's judgments, identifying possible management bias, and evaluating contradictory audit evidence.

Guidance should include examples for both simple and complex estimates, including smaller and less complex entities, and should demonstrate what proportionate documentation could look like in practice.

The IAASB could also provide further guidance on documenting skeptical judgments and responding to complex or highly subjective estimates. In addition, sharing examples of good practices observed through inspections and stakeholder feedback would support more effective implementation.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

Additional practical examples and implementation guidance may further support consistent application, but the existing requirements are generally clear and appropriate.

Saudi Central Bank (SAMA)

IAASB should develop additional guidance on identifying and responding to management bias indicators, with practical examples specific to regulated financial sectors such as insurance reserving and investment property valuations

UK Financial Reporting Council (UK FRC)

The IAASB may wish to consider producing illustrative examples to demonstrate how professional scepticism and auditor challenge can be performed in the context of accounting estimates.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions [Issue raised in response to question 15]

Consider expanding existing NAG with examples of how to apply professional skepticism when information (methods, data, assumptions) comes from a variety of sources and is used in accounting estimates with characteristics described in ISA 540.A21. Such sources of information include:

- Comes from management (not technically a management's expert but management has a better understanding of the subject matter than the practitioner does);
- Comes from management's expert (extant ISA 500.8); or
- Comes from an external information source (proposed ISA 500(R).A49) (e.g., fund manager, administrator, broker, pricing service or other external source) and may therefore be perceived as inherently reliable.

Group of Latin American Accounting Standards Setters (GLASS)

The IAASB could better address the problems or challenges we have identified by establishing standards and publishing non authoritative guidance.

Hong Kong Institute of Certified Public Accountants (HKICPA)

Provide additional illustrative examples and guidance on the extent of challenge auditors should apply to management's accounting estimates in situations when audit evidence is limited or contradictory. This would help reinforce the application of professional skepticism and promote more consistent and robust implementation of the Standard.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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

We do not consider that further standard setting is the best way to enhance professional scepticism. If further non-authoritative material is developed, such case studies may:

- demonstrate the benefits of assessing corroborative and contradictory evidence particularly when the client is operating in a volatile environment.
- include a practical prompt of what the auditor may consider when a client only obtains valuations every other year and there has been a significant change in economic conditions between valuations.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Although we have not observed specific issues or challenges related to professional skepticism, additional guidance (in the form of non-authoritative material (e.g. practical examples, case studies (including those showing inappropriate practice of professional skepticism during the audit of accounting estimates)) can further enhance auditors' application of professional skepticism when auditing complex accounting estimates.

6. Accounting Firms

Baker Tilly International (BKTi)

The observed challenges are not primarily due to a lack of clarity or insufficiency in the requirements of ISA 540 (Revised). The standard is generally clear and comprehensive in setting out expectations regarding professional skepticism, including the need to evaluate management bias, challenge assumptions, and consider contradictory evidence.

Rather, the challenges are more closely linked to practical implementation and auditor behaviour in applying the standard. Issues such as insufficient challenge of assumptions, over-reliance on management or experts, and limited consideration of alternative outcomes arise from inconsistent application of the requirements, rather than ambiguity in the standard itself. In particular, exercising professional scepticism effectively requires a combination of experience, training, and engagement team culture, which can vary across regions and engagements.

That said, additional practical guidance and illustrative examples particularly demonstrating how to apply scepticism in complex or judgmental areas (e.g., external valuations, use of experts, retrospective review) would further support consistent application across firms and jurisdictions.

BDO International Limited (BDO)

There is broad alignment that further improvements in the application of professional skepticism require action beyond the standard itself, particularly through enhanced guidance and stronger engagement with preparers regarding the requirements for estimates.

A key priority is the development of targeted, non-authoritative guidance with up-to-date real-life examples. These examples would:

- illustrate how to consistently challenge assumptions and identify indicators of bias
- provide guidance for involvement of specialists
- clarify the expected level of rigor, particularly for higher-risk estimates
- provide practical examples for complex scenarios, including situations with high estimation uncertainty or limited external data.

Additional examples demonstrating how to efficiently document professional skepticism, including the consideration of contradictory evidence and stand-back evaluations, would also support more consistent and effective application.

Ernst & Young Global Limited (EY)

It would be helpful for the IAASB to develop non-authoritative guidance that includes illustrative examples demonstrating how auditors challenge management's methods, data, and assumptions, as well as processes for identifying and evaluating

contradictory evidence. Additionally, such guidance should illustrate audit documentation practices that demonstrate the exercise of professional skepticism by auditors. This material would serve as a valuable reference point for auditors when assessing both the adequacy and quality of their documentation, while ensuring that documentation remains flexible relative to the assessed risks of material misstatement for accounting estimates, consistent with the IAASB's objective for the standard to be scalable and proportionately applied.

Kia Atlas (Director, RSM)

IAASB could provide implementation guidance on assessing the quality of evidence rather than the quantity. They could include indicators of persuasive vs. non-persuasive support (e.g., objective market corroboration vs internally generated rationale), offer examples where documentation appears comprehensive but lacks external validation. This would help auditors avoid being influenced by presentation rather than substance.

Luna Space Financial Company

Providing additional practical examples and guidance on applying professional skepticism in smaller financial institutions or payments companies would help. Flowcharts or illustrative cases for challenging management judgments and assessing potential bias would further support consistent application

RSM International Limited (RSM)

We do not believe that the issues and challenges identified in relation to the exercise of professional scepticism warrant changes to the requirements or application material of ISA 540 (Revised). The standard is clear and fit for purpose, with appropriate mechanisms—such as the emphasis on challenging management, the requirement to consider both corroborative and contradictory evidence, and the 'stand back' evaluation—designed to support the consistent application of professional scepticism.

Consistent with our responses to earlier questions, the challenges observed are primarily implementation-related, reflecting the inherent judgement required in applying professional scepticism, particularly in complex or highly subjective areas and when evaluating the work of management's experts. Accordingly, we do not suggest reopening or amending the standard.

Rather, we encourage the IAASB to continue focusing on non-authoritative implementation support. In particular, additional practical guidance and illustrative examples may assist auditors in applying the standard more effectively in practice. This includes examples demonstrating how to appropriately challenge management's assumptions, including where management has engaged experts, as well as how to develop independent expectations and evaluate both corroborative and contradictory evidence in a balanced manner.

Further, additional examples that illustrate the application of professional scepticism when auditing simple, less complex estimates may be beneficial in reinforcing how the standard's principles can be applied proportionately for these estimates.

We recommend that the IAASB prioritise enhancing implementation support, rather than undertaking further standard-setting, to address the challenges identified.

Wing Tam (Principal, Forvis Mazar)

The IAASB could help by providing clearer, more practical guidance on how to apply professional skepticism to complex or highly judgmental estimates, including examples of indicators of management bias. Additional non-authoritative guidance or case studies would also be useful to illustrate how to evaluate contradictory evidence in common scenarios. Further clarification on expected documentation for lower-risk estimates would help promote consistency and proportional application across engagements.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We generally consider that ISA 540 (Revised) has been effective in promoting greater professional scepticism when auditing accounting estimates. As a result, the challenges identified do not appear to arise from deficiencies in the requirements

themselves, but rather from demonstrating and documenting how professional scepticism has been exercised in practice.

To address these challenges, stakeholders suggested that the IAASB consider developing additional non-authoritative guidance and implementation support materials. In particular, practical examples illustrating how auditors may document the challenge applied to management's judgments, the consideration of contradictory evidence, the assessment of potential management bias, and the rationale supporting audit conclusions would be beneficial.

Stakeholders also noted that examples covering a range of accounting estimates, including both complex and less complex estimates, could support more consistent application across firms of different sizes and assist auditors in evidencing the exercise of professional scepticism in a manner that is proportionate to the circumstances of the engagement.

Chartered Accountants Australia and New Zealand (CAANZ)

Auditing accounting estimates has inherent challenges, including the need to challenge management judgements and consider the possibility of management's bias. However, we believe that standard already appropriately addresses these issues. Similar to our responses in questions 9 and 13, case studies that address real life complex examples and guidance would assist auditors in the application of the standard.

CPA Australia

In our view, the core requirements are generally clear. The main opportunity is to strengthen implementation support. Practical experience suggests that some application challenges may be linked to insufficiently detailed application material or implementation support, rather than to a fundamental lack of clarity in the requirements themselves. The IAASB could help by providing more practical guidance and examples on how professional skepticism can be demonstrated in different contexts, including:

- simpler estimates, where the risk is routine or formulaic auditing;
- more complex estimates, where auditors need to challenge models, assumptions and specialist inputs; and
- situations involving possible management bias or contradictory evidence.

This would help translate the principles into more consistent practice without requiring fundamental changes to the standard.

Institute of Certified Public Accountants of Kenya (ICPAK)

Issuing of a non-authoritative guidance

Institute of Certified Public Accountants of Uganda (ICPAU)

Issuance of non-authoritative guidance would be instrumental in promoting compliance with the requirements of the standard.

Institute of Singapore Chartered Accountants (ISCA)

The IAASB could consider providing additional clarity or guidance on the extent to which auditors are expected to identify, evaluate and document contradictory audit evidence when assessing management's assumptions and estimates.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Additional guidance tailored to specific sectors and industries, including examples of audit responses that may be commonly applicable to certain potential and pervasive risks, taking into account the jurisdiction and the nature of the accounting estimate.

International Federation of Accountants (IFAC)

IFAC does not believe that revised or additional requirements are needed in this area. Further non-authoritative implementation support would be helpful, particularly in relation to complex or technology-enabled estimates.

In particular, IFAC encourages the IAASB to consider practical guidance on how auditors apply professional skepticism where management uses AI-supported or other model-driven approaches that may be difficult to understand or challenge because of their "black box" nature.

Malaysian Institute of Accountants (MIA Malaysia)

The IAASB could address these challenges through targeted standard setting and implementation support. ISA 540 could be enhanced to more clearly distinguish expected audit procedures where assumptions and data are internally developed by management or management's expert versus sourced from observable external data, and to clarify expectations for challenging experience based assumptions. Expanded application material or non-authoritative guidance could provide practical examples of robust auditor challenge, assessment of management bias, and documentation expectations in high judgment estimates, including clearer linkage with ISA 620. Additional outreach and implementation guidance would promote consistent application and improve audit defensibility, particularly in inspection contexts.

Malta Institute of Accountants (MIA Malta)

Additional non-authoritative guidance would be beneficial in the form of practical examples that illustrate key aspects of applying professional scepticism under ISA 540 (Revised). In particular, examples could demonstrate potential indicators of management bias, how auditors can constructively challenge management's judgements, and how to identify and document contradictory evidence and perform the "stand back" evaluation. Further targeted guidance would also be valuable on how auditors can develop, evaluate, and document ranges of reasonable outcomes for complex estimates in a manner that is both practical and robust, including setting appropriate parameters and considering sensitivity to key assumptions. Illustrative scenarios showing how auditors exercise and document professional scepticism, especially where ranges are wide or where the auditor's view differs from management's point estimate, would support more consistent, defensible application in practice. These enhancements would address execution challenges without necessitating changes to the standard itself.

Nordic Federation of Public Accountants (NRF))

The application of professional scepticism is inherently influenced by factors beyond the wording of the standard and is not well suited to being addressed through additional requirements. This is therefore an area where non-authoritative guidance is likely to be more effective.

8. Others

EITMED

The IAASB could best address these matters through additional non-authoritative guidance rather than significant amendments to the standard. In particular, more practical examples, case studies, and illustrative materials on applying professional skepticism, assessing management bias, and responding proportionately to varying levels of estimation uncertainty would be helpful. Additional guidance on applying the spectrum of inherent risk in practice, especially for less complex entities and estimates, could also support more consistent implementation. Sharing implementation insights and good practices across jurisdictions may further enhance consistency and audit quality.

Saudi Awwal Bank (SAB)

Provide more guidance on professional skepticism

B. Narrow-Scope Amendments

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

The requirements of paragraph 30 of ISA 540 on using the work of a management's expert are not specific enough to facilitate consistency in the audit work required when management has used an expert. In particular the use of the word 'may' in a requirement, could be facilitating an over-reliance on the use of the work of a management's expert. This may require standard setting action.

6. Accounting Firms

Cristian Emmanuel Munarriz (Practitioner)

For management bias, I think non-authoritative guidance and some limited standard-setting may be effective. For stand-back, I think standard-setting may be useful

KPMG International Limited (KPMG)

We consider that the challenges in practice in respect of exercising professional skepticism result from the standard being insufficiently scalable in respect of enabling auditors, when auditing a less complex estimate that is subject to low estimation uncertainty, to direct audit procedures more specifically to elements of management's estimation process where risk resides. While most, if not all, estimates have a method, assumptions and data, the risks of material misstatement related to estimation uncertainty for such less complex estimates are often isolated to the significant assumptions. Accordingly, as we recommend elsewhere, we believe that the standard should provide the auditor with more flexibility to exercise professional judgment when determining the work effort required to obtain sufficient understanding of the method(s) and data (as required at paragraph 13(h)) to identify and assess the risks of material misstatement, or when performing the further audit procedures, with related exercise of professional skepticism, to address risks of material misstatement relating to the method or data (as required at paragraphs 22-25 of the revised standard) for these less complex estimates

7. Professional Accountancy Organizations

Institute of Chartered Accountants of Ghana

Due to the fact that the Standard allows for alternative methods in some situations, management may at times adopt a method that suits their personal interest which may not align with the overall interest of the organization. We suggest that IAASB should give specific or strict approach to be adopted in situations that may create potential conflict and create scenarios for management tending to use easy way out for their benefits

The IAASB can use standard setting guidance to reduce the level of manipulation by preparers of accounts as a way to control them.

8. Others

Saudi Awwal Bank (SAB)

Strengthen requirement to consider alternate outcomes

Trust Consulting and Training LLC

I think it needs to be simplified.

C. Other Suggestions

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

Further training initiatives, workshops and implementation tools focusing on exercising professional skepticism in practice, especially when dealing with subjective or forward-looking estimates, would help improve consistency in audit execution across firms of different sizes and jurisdictions.

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of Azerbaijan Republic

We propose holding webinars in this direction.

Chamber of Auditors of the Czech Republic

At this stage, no specific additional actions appear necessary in relation to ISA 540 (Revised).

Lesotho Institute of Accountants

Continued outreach, education, and periodic updates to implementation guidance would further strengthen auditors' ability to exercise professional skepticism in accordance with ISA 540 (Revised).

5. Jurisdictional and Other Standards Setters (JSS)

Institut der Wirtschaftsprüfer (IDW)

As discussed above, we have not identified any deficiencies in standards themselves in respect of the issues listed in question 14. Consequently, we do not see the need for the IAASB to focus on this area.

Japanese Institute of Certified Public Accountants (JICPA)

We believe there is no need to change the auditing standards.

We encourage the IAASB to take steps to educate entity management about what kind of internal controls entities should implement and operate in order to mitigate the risk of management bias in developing accounting estimates.

South Africa Institute of Chartered Accountants (SAICA)

The standard provides a clear framework in terms of how professional scepticism should be applied. It is our view that guidance should be focused on how documentation of considerations applied by practitioners should be improved upon. In this regard, engagements with regulators, inspections bodies such as IFIAAR, could be beneficial to obtain input on how guidance could be improved to enhance its practical value.

6. Accounting Firms

BDO International Limited (BDO)

A recurring theme is the importance of improving the quality of management-prepared estimates. Closer collaboration with accounting standard-setters and the development of guidance aimed at preparers (management and TCWG) would help:

- reinforce their responsibility to provide robust, well-supported, and auditable estimates, and

- establish clearer shared expectations between auditors and entity management.

There is also a need to consider how management accountability can be strengthened, particularly in cases where estimates and supporting documentation are insufficient.

Overall, while ISA 540 (Revised) provides a strong foundation, enhanced practical guidance and improved preparer engagement are critical to achieving more consistent, effective application in practice.

Crowe Solutions for Professional Consultancy

N/A. The requirements and application material in ISA 540 (Revised) are generally clear. Challenges mainly arise from the nature of accounting estimates and from operating environments where observable market data, benchmarks, or valuation inputs are limited, rather than from any lack of clarity in the standard.

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

The IAASB can help by providing some guidance for the companies and management about what is required in terms of accounting estimates from them to assist the auditors in achieving the desired objectives.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the nature and causes of these challenges and whether they arise from the requirements of the standard itself or from implementation in practice.

The IAASB may wish to consider the most appropriate way to address the challenges identified, with a focus on enhancing simplification and proportionality in the application of ISA 540 (Revised).

Global Accounting Alliance (GAA)

As discussed above, we consider that challenges arise from applying the standard rather than misunderstanding of the standard. Other than some of the NAM recommendations, above, we do not see the need for the IAASB to focus on this area, which we consider rather to be the role of the regulators to monitor.

Institute of Chartered Accountants in England and Wales (ICAEW)

As noted in previous responses to the IAASB, an auditing standard, no matter how carefully crafted and no matter how many times it mentions professional judgment and scepticism, cannot compel auditors to exercise them appropriately.

Achieving the required change in auditor behaviour is a broader issue requiring a holistic response from firms, professional bodies, regulators, standard-setters and others.

We draw the IAASB's attention ICAEW's Professional Judgement hub. Of note is the Applying Professional Judgment in Audit e learning programme.

We note that the IAASB is actively exploring how it can support auditors to manage the challenges associated with technology and audit. We hope this work will consider guidance exploring at how auditors might approach complex, forward-looking estimates produced using AI.

Virgina Society of CPAs Audit and Accounting Committee

Continue to send clear and consistent messaging. Don't allow auditors to just drop these issues in a "not material" bucket, especially if the evidence is inconsistent with other findings.

D. 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)

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)

ELVI Audit FINANS LLC

Forvis Mazars Global Limited (Mazars)

Grant Thornton International Ltd (GTI)

None needed, see response to Question 15.

Housam Halawa (Practitioner)

None

Natiq Əliyev (Practitioner)

Xeyr

PricewaterhouseCoopers International Limited (PwC)

No response

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)

None

Ibracon - Brazil Institute of Independent Auditors

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

Not applicable

8. Others

ASK KSA Consulting Inc.

Question 21

What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *risk assessment procedures* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow-Scope Amendments](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

1. Monitoring Group

International Organization of Securities Commissions (IOSCO) Committee 1

We observe a few areas in which we believe it would be beneficial for the IAASB to develop an appropriate response which could include standard setting, narrow-scope amendments or non authoritative guidance, as necessary. These include the following:

A. Addressing matters related to specific types of accounting estimates. Similar to the Board's existing illustrative examples on auditing property impairments, inventory valuations, and the allowance for loan losses using the expected credit loss method, we recommend developing additional material to address the following types of accounting estimates:

- Recoverability assessments of deferred tax assets;
- Fair value estimates for financial instruments, investments in real and other property, business combinations; and
- Estimates that have specified measurement protocols in the relevant financial reporting framework such as insurance policy liabilities.

Consistent with the approach in the non-authoritative guidance issued during the COVID-19 period in 2020, we recommend new guidance how auditors should evaluate the impact from macroeconomic, geopolitical, other industry or company-specific conditions and events on accounting estimates, such as changes in risk-free interest rate and commodity prices.

B. Material to address the application of specific aspects of ISA 540 (Revised), including: • Retrospective review of management estimates for purposes of risk assessment; • Development of an auditor independent point estimate or range;

- Use of events subsequent to the balance sheet date and prior to audit report issuance date as substantive evidence;
- Evaluation of contradictory evidence;
- The identification and evaluation of significant assumptions in fair value accounting estimates, including when and how auditors should involve valuation experts. • Adequate audit documentation on how auditors evaluate the appropriateness of the valuation expert's work as audit evidence, including how they assess the relevance and reasonableness of the significant assumptions and methods in fair value accounting estimates.

C. Material on disclosures of non-monetary amounts that may be subject to "estimation uncertainty" (e.g., those disclosed as a ratio, percent or other format) given the prevalence of such disclosures in the financial statements and current auditor inconsistent understanding whether to treat such figures as accounting estimates

D. Material detailing the audit procedures that should be performed over disclosures related to accounting estimates. We believe this will be useful since, as regulators of public securities markets, some IOSCO members continue to observe insufficient disclosure concerning accounting estimates such as boilerplate or generic disclosures, when the relevant accounting standard requires disclosure of specific quantitative assumptions and estimation uncertainty through entity-specific sensitivity analyses.

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

The IAASB could address these challenges by issuing enhanced non-authoritative guidance.

Canadian Public Accountability Board (CPAB)

Non-Authoritative Guidance/Targeted Amendments

CPAB has observed that challenges in applying ISA 540 (Revised) may arise from inconsistent understanding of how certain requirements are intended to operate. Common areas of misunderstanding include the auditor's responsibilities in addressing estimation uncertainty, the appropriate use of auditor-developed point estimates, and the relationship between risk assessment, professional skepticism, and the nature and extent of audit procedures. These challenges suggest that targeted application guidance focused on commonly misunderstood areas could support more consistent implementation of the standard across engagements.

CPAB encourages the IAASB to explore if these challenges are best addressed through targeted amendments to ISA 540 (Revised) or the issuance of non-authoritative guidance. This includes considering how the IAASB's non authoritative materials can better equip auditors to apply the principles of ISA 540 (Revised) consistently and effectively in practice. Given the judgmental nature of the standard and the wide range of estimation techniques, levels of complexity, and risk profiles encountered, auditors may benefit from practical support that helps translate principles into action. More targeted materials—such as illustrative considerations, probing questions, or decision focused examples - could assist engagement teams in exercising professional skepticism, challenging management more effectively, and responding appropriately to heightened estimation uncertainty in a scalable manner.

Independent Regulatory Board for Auditors (IRBA)

As it relates to over-generalised risks, incorrect risk focus and misapplication of the inherent risk framework, our view is the non-authoritative guidance can assist in providing practical implementation support.

Lesotho Institute of Accountants

The IAASB could address these challenges primarily through the development of additional non-authoritative guidance, practical implementation tools, and illustrative examples. Such resources should demonstrate how to perform and document risk assessment procedures for accounting estimates in a scalable and proportionate manner, including for smaller and less complex entities.

Further guidance would be particularly beneficial in assessing and documenting inherent risk factors, understanding the interrelationship between estimation uncertainty, complexity, and subjectivity, distinguishing between inherent and control risk, conducting retrospective reviews, and linking ISA 540 risk assessment requirements with the broader risk assessment framework under ISA 315. Illustrative case studies and practical examples showing how to determine appropriate audit responses to varying levels of inherent risk would also promote greater consistency in practice.

Saudi Central Bank (SAMA)

IAASB should clarify the interaction between ISA 315 and ISA 540 requirements through a dedicated guidance document, and provide worked examples demonstrating the separate assessment of inherent and control risks for common accounting estimates in regulated financial sectors

UK Financial Reporting Council (UK FRC)

The IAASB may consider the need for further non-authoritative guidance to address these issues to support practitioners in applying these requirements in a scalable and proportionate manner, while giving practitioners the confidence to apply appropriate professional judgement to tailor appropriate responses to the assessed risk of material misstatement.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions (note that there is optionality in the suggestions for issues 1 and 2)

1. Insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates [Issue raised in response to question 18A]

- Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

- [Option A] Consider expanding guidance and encourage establishing an engagement team with appropriate assurance competence and capabilities

- o Consider updating the previously issued Linkages between ISA 540 (Revised) and Other ISAs NAG to include a linkage between ISA 540 and ISA 220.26.

2. Insufficient understanding of the entity's system of internal control relevant to accounting estimates [Issue raised in response to question 18A]

- Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

- [Option A] Expand guidance:

- o Consider updating the previously issued Linkages between ISA 540 (Revised) and Other ISAs NAG to align with ISA 315 (Revised) to draw clearer linkage between ISA 540 and:

- evaluation of components of internal control and control deficiencies under ISA 315.27; and
- the auditor's assessment of control risk under ISA 315.34.

- o Consider expanding the 'Auditor's Understanding and Approach' in Example 1 of ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB to explain the impact on risk assessment when 'management's process for making an accounting estimates' is not sufficiently robust/missing, including when:

- management does not have a formal risk assessment process;
- the evaluation of relevant controls indicates control deficiencies;
- management does not formally review the outcome of their previous accounting estimates;

3. Uncertainty around how to perform a retrospective review through the subsequent re-estimation of previous accounting estimates [Issue raised in response to question 19]

- Root causes:

- o Misapplication of the ISA

- Suggest: Consider updating the existing ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB NAG with examples of how to apply ISA 540.14 when an outcome 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 has not yet occurred because:
 - o Performing risk assessment procedures before the outcome of the estimate is known; and
 - o The outcome of an accounting estimate is resolved over a longer period.

Group of Latin American Accounting Standards Setters (GLASS)

The IAASB could better address the problems or challenges we have identified by establishing standards and publishing non authoritative guidance.

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Develop additional guidance on performing retrospective reviews of previous accounting estimates in situations where information or data is limited at the audit planning stage, or where the estimates are determined using a market approach rather than cash flow projections.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Generally, non-authoritative materials (in the form of practical examples); showing how the auditor apply the retrospective reviews of management's judgments and assumptions as part of the required risk assessment procedures, can help enhancing the clarity and understandability of such procedures.

6. Accounting Firms

Baker Tilly International (BKTi)

The observed issues are not primarily due to a lack of clarity in the requirements of ISA 540 (Revised). The standard is generally clear in its expectations around risk assessment, retrospective review, management bias, and the need to tailor procedures to the assessed risks. The issues appear to arise more from inconsistent application in practice, including auditor judgment, execution, and documentation. Having said that, additional practical examples would be helpful for retrospective reviews.

BDO International Limited (BDO)

There is a clear need for the IAASB to further support the consistent application of ISA 540 (Revised) through enhanced, example-driven guidance.

A key priority is the development of non-authoritative materials which focus on real-life case studies, illustrative documentation, and learning resources that demonstrate how to:

- identify accounting estimates and assess inherent risk characteristics of the estimates,

- apply a fully integrated ISA 540 (Revised) and ISA 315 (Revised) approach, avoiding siloed risk assessment processes,
- challenge significant assumptions and appropriately evaluate variances or differences.

These materials should include examples that clearly differentiate between lower- and higher-risk estimates, helping auditors understand how to calibrate the nature, timing, extent, and documentation of procedures proportionately.

Further guidance is also needed to address specific practical challenges, including:

- how to clearly and proportionately link risk assessment conclusions with the responses to those risks • how to efficiently perform and document retrospective reviews, especially when there has been a change in the underlying assumptions and/or economic conditions
- how to assess the sufficiency and appropriateness of audit evidence, particularly in situations with limited external data or high estimation uncertainty and
- how to challenge management when there are differences between management's estimate and the auditor's review thereof.

Overall, new example-driven non-authoritative materials (e.g., case studies, illustrative documentation and training) would support more consistent, efficient, and risk-focused application of ISA 540 (Revised) in practice.

Crowe Solutions for Professional Consultancy

The IAASB could consider developing additional non-authoritative guidance in the form of detailed case studies illustrating the end-to-end application of ISA 540 (Revised), particularly for estimates with high estimation uncertainty and complexity, including in environments with limited availability of observable market data. This would help demonstrate how risk assessment procedures are translated into tailored audit responses in practice.

Deloitte Touche Tohmatsu Limited (DTTL)

While we support the objective of a retrospective review where it provides meaningful insight into management's estimation process, potential bias, or changes in circumstances, there is a need for further guidance on the application of these reviews in practice. For example, additional guidance may include examples of when it is necessary to perform a retrospective review based on the objective of this procedure.

Ernst & Young Global Limited (EY)

It would be helpful for the IAASB to consider developing targeted non authoritative material addressing the application of the retrospective review requirement in ISA 540 (Revised), including how the nature and extent of work may be applied proportionately in different circumstances.

In particular, such materials could help clarify how the retrospective review is intended to support the current period risk assessment, while not resulting in a reassessment of prior period judgments, and how the work may be scaled appropriately having regard to the extent of complexity, subjectivity and estimation uncertainty related to the estimate, which drives the assessed level of inherent risk.

With regard to entities' use of AI in processes to make accounting estimates, we believe this is an important topic for the newly established Technology Expert Panel to consider and potentially address through non-authoritative material.

Regarding the use of pricing services by entities, it would be beneficial for the IAASB to provide non-authoritative guidance that expands upon the guidance provided in ISA 500 and ISA 540 (Revised) about the use of external information sources. Such guidance should specifically address scenarios in which an entity utilizes third party pricing services or vendors to value certain investments. Leveraging guidance from the US AU-C Section 540 Appendix C may be helpful in this context.

Grant Thornton International Ltd (GTI)

Non-authoritative guidance related to the matters identified in our response to Q19 may help to promote consistent application of the standard.

Luna Space Financial Company

Providing more practical examples, flowcharts, or step-by-step guidance for risk assessment would support smaller financial institutions and payments companies in applying the standard consistently

PricewaterhouseCoopers International Limited (PwC)

It would be helpful to provide further guidance and illustrative examples on how retrospective reviews can be performed and documented in a proportionate manner, particularly where engagement circumstances indicate a lower degree of estimation uncertainty and complexity.

Wing Tam (Principal, Forvis Mazars)

The IAASB could provide more practical, non-authoritative guidance and illustrative examples on how to apply risk assessment procedures to complex or judgmental estimates, including how to assess inherent risk factors in practice. Additional clarification on expectations for retrospective reviews, understanding management's processes, and distinguishing significant risks would also be helpful. Developing industry-specific examples or case studies and simplifying guidance on proportionality would support more consistent application across engagements.

7. Professional Accountancy Organizations

CPA Australia

We do not support broad expansion of the requirements. Any response should be targeted and focused mainly on implementation guidance, practical examples and application material.

Our outreach indicate that existing tools are useful, but not yet sufficient to support consistent and proportionate application across the full range of estimates.

In particular, the IAASB should consider developing:

- more examples illustrating proportionate application for simple and less complex estimates in SME environments, e.g. debtors

where ageing is straightforward and historical loss experience is relatively stable, employee benefits provision based on payroll records and straightforward assumptions, warranty provision for routine products with stable historical claims experience, bonus provisions based on contractual formulas or board-approved metrics with limited estimation uncertainty • more advanced examples for complex estimates, including expected credit losses, fair value and valuation-based estimates, and estimates involving complex or "black box" models

- additional guidance on auditing related disclosures, especially where auditors use an independent model or range and need to separately evaluate the adequacy of management's narrative disclosures.
- clarify how ISA 540 paragraph 13 is intended to build on, rather than duplicate, ISA 315;
- provide more guidance on when retrospective review can be more limited or focused; and
- clarify how the spectrum of inherent risk should translate into proportionate work effort in practice.

Centralising these supporting materials would also improve accessibility and uptake.

In relation to the duplication challenges in practice when applying ISA 540 (Revised) to risk assessment, an immediate priority would be for the IAASB to develop guidance and practical examples that clearly delineate the respective roles of ISA 540 (Revised) and ISA 315 (Revised).

Global Accounting Alliance (GAA)

Given ISA 540 (Revised) originated the “in applying” ISA 315 (Revised 2019) “lens” often found in more recent standards such as ISA 240 (Revised) and ISA 570 (Revised 2024), we believe the IAASB's PIR efforts should seek to more deeply understand and then clarify through NAM, the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly to help auditors avoid duplication in risk assessment and in understanding the entity's processes and controls to enable scalability.

Institute of Certified Public Accountants of Kenya (ICPAK)

Issuing a non-authoritative guidance

Institute of Certified Public Accountants of Uganda (ICPAU)

Issuance of an ISA 540 (Revised) non-authoritative guidance

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials. Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

International Federation of Accountants (IFAC)

Non-authoritative guidance to help auditors minimise unnecessary duplication of work when navigating the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) may also be helpful.

Malaysian Institute of Accountants (MIA Malaysia)

Providing non-authoritative guidance, such as practical examples and case studies, to illustrate the application of retrospective reviews, particularly in volatile economic environments. Additionally, guidance on how the risk assessment requirements of ISA 540 (Revised) build on ISA 315 (Revised 2019) could help reduce overlap and duplication in documentation and procedures.

Malta Institute of Accountants (MIA Malta)

Additional non-authoritative guidance would be beneficial to clarify the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) and ISA 330, supported by more decision-useful application material. In particular, clearer direction is needed on the extent of understanding required, the assessment of inherent risk factors, the distinction and separate assessment of inherent and control risks, and the circumstances in

which risks relating to estimates should be classified as significant. Practical examples would also be valuable in illustrating how retrospective reviews can be applied across different types of estimates, including when they are most informative and how their scope can be scaled for lower-risk scenarios. Further guidance demonstrating how inherent risk factors for estimates feed into the overall risk assessment, as well as how auditors can document their reasoning when determining whether a risk is significant, would support more consistent and robust application in practice without requiring changes to the standard itself.

The Malaysian Institute of Certified Public Accountants

Providing non-authoritative guidance, such as practical examples and case studies, to illustrate the application of retrospective reviews, particularly in volatile economic environments. Additionally, guidance on how the risk assessment requirements of ISA 540 (Revised) build on ISA 315 (Revised 2019) could help reduce overlap and duplication in documentation and procedures.

Virginia Society of CPAs Audit and Accounting Committee

More non-authoritative guidance with examples for complex estimates would be helpful.

8. Others

EITMED

The IAASB could best address these matters through additional non-authoritative guidance and practical examples rather than significant changes to the standard. More illustrative material on applying the spectrum of inherent risk, linking ISA 540 (Revised) with ISA 315 (Revised 2019), conducting retrospective reviews, and determining when risks should be treated as significant risks would be helpful. Case studies showing how these concepts apply to estimates of varying complexity and estimation uncertainty would also support more consistent implementation across different audit engagements.

B. Narrow-Scope Amendments

4. Regulators and Audit and Assurance Oversight Bodies

Independent Regulatory Board for Auditors (IRBA)

We believe there is scope for narrow-scope amendments to retrospective review requirements and application material within the standard, particularly for more complex estimates and in circumstances where management only prepares the estimate at or near year end.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions (note that there is optionality in the suggestions for issues 1 and 2)

1. Insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates [Issue raised in response to question 18A]

• Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

[Option B] Narrow scope amendments to ISA 540 application material:

- o Consider whether ISA 540 should draw a clearer link to ISA 220.26 and the competence and capabilities of the engagement team, by adding AM to explain that:
- o Practitioners are required by ISA 220 and the QM standards to determine whether the engagement team has the appropriate competence and capabilities to perform the audit engagement, including an understanding of the applicable professional standards (ISA 220.26 and A72), such as the applicable financial reporting framework. Where this is not the case, they can:
 - Determine specialized skills are needed to perform the engagement (i.e., an auditor's expert) (ISA 540.15); or
 - Not accept the engagement.

2. Insufficient understanding of the entity's system of internal control relevant to accounting estimates [Issue raised in response to question 18A]

• Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

• [Option B] [KEY] Narrow scope amendments to ISA 540 requirement:

- o Consider adding a sub-paragraph to ISA 540.16 to create a clearer linkage to ISA 315.27 and risk assessment, particularly because ISA 540.16 requires separate inherent risk and control risk assessments at the assertion level when identifying and assessing RMM relating to an accounting estimate:

(c) The evaluation of each of the components of the entity's system of internal control, and whether the auditor has determined whether one or more control deficiencies have been identified."

Institut der Wirtschaftsprüfer (IDW)

The answer "yes" in question 20 relates only to the challenges arising referred to in question 18(b). No further clarification is considered necessary.

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) apply only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Please also see our response to question 13.

6. Accounting Firms

Emmanuel Munarriz (Practitioner)

I think the IAASB should think if the requirement is useful for these specific cases I mentioned above and make limited amendments accordingly. If so, further clarity in the form of application guidance and/or non-authoritative guidance may be useful (application guidance in the standard may be preferable)

Ernst & Young Global Limited (EY)

We are uncertain, however, whether non-authoritative material alone would be sufficient to address the scalability challenge noted with regard to simple or low risk estimates. Alternatively, it may be appropriate to consider a targeted amendment to the requirement, mandating performance only in circumstances when the retrospective review is expected to provide benefits that justify the time and effort involved.

KPMG International Limited (KPMG)

We recommend that the standard include conditionality in the requirement to perform a retrospective review, e.g., that the auditor be required to "consider performing" such a review, with related application material setting out factors that the auditor may consider in making this determination, that are directed to understanding the specific risks associated with the estimate. We believe that this would better align with the fundamental premise that an audit is risk-based, and that requirements are principles-based rather than prescriptive. Factors to consider may include the applicability of inherent risk factors, including whether the estimate is complex versus less complex, the degree of estimation uncertainty, and the nature of the estimate, e.g., whether the estimate is a value-in-use estimate or a fair value estimate based on observable market values.

In addition, we suggest that the application material further discuss the performance of the retrospective review for different types of estimates, in terms of the information that the review may provide regarding management's estimation process. This may include consideration of inherent risk factors, building on the material included at A58 and A59. We recommend that the standard include examples to better illustrate how the review may be designed in order to provide meaningful information to inform risk identification and assessment.

Furthermore, we recommend that the standard provide additional guidance as to the steps the auditor may take, including to comply with the IESBA Code of Ethics, and with applicable legal and regulatory requirements, in the event that the retrospective review identifies differences that may be indicative of a material misstatement of the prior period financial statements.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

Stakeholders suggested that the IAASB consider whether standard-setting activity is warranted to further align and simplify the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment procedures and the consideration of controls related to accounting estimates.

There is a perception that certain aspects of ISA 540 (Revised) may overlap with, or duplicate, requirements already addressed through ISA 315 (Revised 2019), particularly in relation to obtaining an understanding of management's processes and controls relevant to accounting estimates.

Stakeholders therefore suggested that the IAASB consider whether aspects of ISA 540 (Revised) could be simplified or streamlined to better reflect the current risk assessment framework established by ISA 315 (Revised 2019). Any such review should seek to reduce unnecessary duplication, improve consistency in application, and reinforce a risk-based and proportionate approach, while maintaining the standard's focus on obtaining sufficient appropriate audit evidence for accounting estimates and related disclosures.

We therefore note that additional implementation guidance illustrating the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised) would be beneficial, particularly in relation to controls, risk assessment procedures and documentation expectations.

Chartered Accountants Australia and New Zealand (CAANZ)

The board needs to consider the alignment/integration of ISA 540 and ISA 315 to see if ISA 540 can be streamlined, particularly for low risk estimates.

Global Accounting Alliance (GAA)

Otherwise, the answer “yes” here relates only to the challenges arising referred to in question 18(b). No further clarification is considered necessary.

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) applies only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Institute of Chartered Accountants in England and Wales (ICAEW)

The IAASB can best address the lack of clarity regarding the interaction of ISAs 540 (Revised) and ISA 315 (Revised) through targeted removals of content from the former that is already sufficiently articulated in the latter.

Please also see our response to question 13.

Institute of Chartered Accountants of Ghana

The standard should indicate how issues of infrequent nature or unnatural occurs, how they should be treated and measured and what appropriate estimation method or procedure should be applied.

The standard should provide for any contingency happenings like Earthquake and other natural disasters.

International Federation of Accountants (IFAC)

As noted in earlier responses, and our response to question 13, narrowing the scope of application of ISA 540 (Revised) to remove simple estimates would both help to reduce issues in this area and support effective consideration of risk by auditors.

8. Others

ASK KSA Consulting Inc.

Standard setting to clarify and simplify requirements.

C. Other Suggestions

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of the Czech Republic

At this stage, no specific additional actions appear necessary in relation to ISA 540 (Revised).

Lesotho Institute of Accountants

In addition, enhanced training materials and implementation support focused on understanding management's estimation processes, evaluating data quality, and assessing relevant controls would assist auditors in applying the standard effectively. Continued engagement with regulators, practitioners, and other stakeholders would further help the IAASB identify emerging challenges and inform future updates to guidance and support materials.

5. Jurisdictional and Other Standards Setters (JSS)

Hong Kong Institute of Certified Public Accountants (HKICPA)

- Liaise with and engage the IASB to review and consider whether there are any contradictory requirements in IFRS Accounting Standards regarding the retrospective review of previous accounting estimates; and

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

We recommend that the IAASB work with practitioners and regulators to identify examples where retrospective reviews of an estimate provide high quality audit evidence and where the benefit outweighs the cost. Such discussion could enable clear communication of when and how retrospective reviews promote audit quality.

6. Accounting Firms

BDO International Limited (BDO)

In addition, working alongside the IASB, developing guidance targeted at preparers of financial statements to clarify expectations of management and TCWG around the quality and extent of supporting evidence. This would help to alleviate some of the issues auditors find in practice and promote more effective dialogue about estimates between auditors, preparers and also regulators.

RSM International Limited (RSM)

We do not believe that the issues and challenges identified in relation to risk assessment procedures warrant changes to the requirements or application material of ISA 540 (Revised). The standard is regarded as clear, conceptually robust and appropriately aligned with ISA 315 (Revised 2019).

Consistent with our responses to earlier questions, the challenges observed are primarily implementation-related and reflect the need for continued development of auditor judgement and understanding in applying the risk assessment requirements related to estimates in practice, such as effectively considering inherent risk factors, understanding management's processes and applying the retrospective review as a risk assessment tool.

Accordingly, we do not support reopening or amending the standard. Rather, we believe that these matters are best addressed through firm-level training, guidance and methodology development, which can support auditors in understanding both how to perform procedures and why they are performed.

While we do not believe additional standard-setting or extensive non-authoritative guidance to be necessary, the IAASB may consider, as a supplementary measure, the development of targeted frequently asked questions or similar materials to reinforce key concepts and practical application. However, such actions should remain limited in scope.

We encourage a continued focus on strengthening implementation through education and practical understanding, rather than further changes to ISA 540 (Revised).

7. Professional Accountancy Organizations

Accountancy Europe (AE)

Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the practical challenges encountered in applying the risk assessment requirements of ISA 540 (Revised).

The IAASB may wish to assess whether the challenges identified reflect implementation issues or whether further consideration of certain requirements in ISA 540 (Revised) may be appropriate. The aim should be to reduce duplication and avoid unnecessary documentation and work effort for auditors in practice while supporting high quality audits. At the same time, stakeholders identified several critical implementation challenges and areas where further support may be beneficial and consideration of changes to the requirements in the standard may be necessary.

Association of Chartered Certified Accountants (ACCA)

We also note that, before undertaking significant revisions to ISA 540 (Revised), the IAASB should consider the outcomes of other ongoing standard-setting projects, including those relating to audit evidence and technology. Given the significant interaction between ISA 540 (Revised) and other auditing standards, stakeholders believe it is important to assess how any changes arising from these projects may affect the application of ISA 540 (Revised) and whether they address some of the challenges identified through this review. A coordinated approach would help avoid unintended duplication and support greater consistency across the suite of auditing standards.

Chartered Accountants Australia and New Zealand (CAANZ)

The board also needs to consider the impact of other projects currently undertaken such as the audit evidence and technology projects to determine how any standard setting changes that result from those projects impact ISA 540 before undertaking any revisions to ISA 540.

CPA Australia

More broadly, the IAASB should defer major amendments to ISA 540 (Revised) and instead address these issues as part of any future post-implementation review of ISA 315 (Revised). As part of that process, ISA 540 (Revised) should be simplified by removing risk assessment requirements and application material that duplicate those already addressed in ISA 315 (Revised), to support a clearer and more efficient framework in practice.

8. Others

Saudi Awwal Bank (SAB)

Emphasize the right team on audit especially on risk based area such as derivatives

D. No Specific Responses

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of Azerbaijan Republic

We have no proposal.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

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

Forvis Mazars Global Limited (Mazars)

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

N/A

Natiq Əliyev (Practitioner)

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 Singapore Chartered Accountants (ISCA)

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Nordic Federation of Public Accountants (NRF))

We refer to our response to Q 13.

Pan African Federation of Accountants (PAFA)

8. Others

Trust Consulting and Training LLC

It's hard to explain it now.

Question 25

What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *responding to the risks of material misstatements and overall evaluation* you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow-Scope Amendments](#)
- [C. Other Suggestions](#)

- [D. No Specific Responses](#)

A. Non-Authoritative Materials

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

2. Consider providing additional practical implementation guidance and industry-specific illustrative examples, particularly for small and medium-sized audit practices. Further non-authoritative guidance on auditing complex estimates, management bias, forward-looking assumptions, and the use of external experts would support more consistent and proportionate application of the standard, enhance audit quality, and assist auditors in exercising professional judgment in areas of significant estimation uncertainty.

Independent Regulatory Board for Auditors (IRBA)

We recommend non-authoritative guidance to provide practical implementation support related to the evaluation of point estimates and evaluating differences between management's estimate and the auditor's expectation to determine if the estimate is misstated or not.

Lesotho Institute of Accountants

The IAASB could address these challenges through the development of additional non-authoritative guidance, practical implementation tools, decision aids, illustrative examples, and training materials. These resources should demonstrate how auditors can design and perform appropriate audit procedures in response to assessed risks of material misstatement, including selecting and applying suitable testing approaches, evaluating management's models, assumptions, and data, testing complex models, using subsequent events as audit evidence, developing auditor point estimates or ranges, and assessing wide ranges and identified misstatements.

Practical case studies covering estimates with varying levels of complexity, subjectivity, and estimation uncertainty would help auditors apply the requirements more consistently and proportionately. Guidance should also address the effective use of specialists, maintaining auditor objectivity where management adjusts estimates based on audit evidence, and ensuring a clear link between assessed risks and audit responses. Particular emphasis should be placed on scalability, documentation, and the application of the requirements in audits of smaller firms and less complex entities.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

Additional practical examples and implementation guidance could further assist auditors

Saudi Central Bank (SAMA)

IAASB should consider issuing supplementary guidance on developing auditor's point estimates for industry-specific estimates, and clarify expectations around evaluating management bias when the auditor's range differs significantly from management's estimate.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions (note that there is optionality in the suggestions for issues 1 and 2)

1. Difficulty determining the most appropriate response to the assessed RMM, particularly when is it appropriate to develop an auditor's point estimate or range [Issue raised in response to question 23]

- Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

- [Option A] Consider expanding guidance by updating one or more examples in the following existing NAG such that the circumstances in para. A118 exists and the auditor determines it is appropriate to develop an auditor's point estimate under ISA 540.18(c), but not required under ISA 540.27(b), with an explanation as to why it is considered appropriate:

- o ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB and
- o ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Expected Credit Loss Accounting Estimates | IAASB

2. When ranges are used, challenges arise in determining whether the accounting estimate is reasonable in the context of the applicable financial reporting framework, or is misstated [Issue raised in response to question 23]

- Root causes:

- o Misapplication of the ISA
- o Lack of clarity/insufficiency in the Req/AM

Suggest:

- [Option A] Consider expanding the NAG identified below to include examples of how the auditor would determine whether the measurement outcome selected from a range of reasonably possible outcomes, in the scenarios described in the challenge column, is reasonable in the context of the applicable financial reporting framework or is misstated.

- o ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB and
- o ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Expected Credit Loss Accounting Estimates | IAASB
- o Such guidance should address how the auditor evaluates misstatement when the accounting estimate used falls within the range of reasonably possible outcomes, but is not considered by the auditor to represent the most favorable outcome (i.e., where it is not the measurement amount that is most likely or that is more likely than not (para. A47)).

3. Determining whether the disclosures are reasonable in the context of the applicable financial reporting framework [Issue raised in response to question 23]

- Root cause: misapplication of the ISA

- Suggest: Consider expanding existing NAG by:

- o Adding ISA 540.36 to ISA 540 (Revised) - Requirements Flowchart to remind auditors of its existence; and

- o Updating Example 3 in ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Expected Credit Loss Accounting Estimates | IAASB to:

- further tie the 'Relevant Considerations' and 'Auditor's Understanding and Approach' to the requirement in ISA 540.36(a) rather than just to ISA 26(b) and 29(b) with respect to Disclosures Related to Accounting Estimates;

and

- explain in 'Auditor's Understanding and Approach' column what the auditor can do to evaluate the disclosures under ISA 540.36(a).

Australian Auditing and Assurance Standards Board (AuASB)

Non authoritative guidance could be developed in these areas, such guidance could provide more extensive practical examples.

Group of Latin American Accounting Standards Setters (GLASS)

The IAASB could better address the problems or challenges we have identified by establishing standards and publishing non authoritative guidance.

Hong Kong Institute of Certified Public Accountants (HKICPA)

Since the issues or challenges arise from practical implementation of the Standard, it is recommended that the IAASB develop illustrative examples or application materials to demonstrate the following aspects:

- the appropriate extent of audit work performed and audit documentation required when auditing accounting estimates that

involve significant management judgment, such as discounted cash flows and budgeted information, or in situations where relevant market data for evaluating management's estimates is not available;

- the sufficiency and appropriateness of audit evidence to support the reasonableness of both ends of the auditor's estimate range, particularly in situations where the range is wide and may exceed audit materiality; and

- the evaluation of external information sources and third-party pricing services, including how to assess the reliability of their work and determine the appropriate extent of audit evidence to be obtained, given that auditors are typically provided with limited information.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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

We have heard that practitioners find the examples provided in the standard too simple. We encourage the use of more realistic case studies, based on more complex estimates encountered in practice.

We have heard challenges when management makes material adjustments to their estimate based on an auditor's point estimate. We would encourage application material to address this situation, outlining when necessary and providing practical examples.

We also encourage further guidance on how the precision of an auditor's point estimate or range affects the persuasiveness of audit evidence, particularly where estimation uncertainty is high and when evaluating misstatements. Further clarity is also needed on the steps an auditor should take when the auditor's estimate differs from management's estimate.

It would be helpful to explain how to consider a material misstatement and whether, and in what circumstances, the matter should be communicated to those charged with governance or whether a scope limitation may need to be considered. Emerging technology may provide opportunity to enhance documentation to ensure consistency across the audit file.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Additional guidance (as application materials or non-authoritative materials (e.g. case studies, Q&A)), explaining how to evaluate the reasonability of an estimate and reach an overall conclusion when the difference between management's estimate and the auditor's reasonable range is considerably close, can be very useful to better application of the standards requirements.

6. Accounting Firms

BDO International Limited (BDO)

To address ongoing challenges in applying ISA 540 (Revised), we recommend that the IAASB to provides additional non authoritative guidance focused on real-world application.

A key area for enhancement is the development of realistic examples that demonstrate how to design and execute risk responsive audit procedures, particularly for complex or high-uncertainty estimates. This would include guidance on how to:

- tailor audit procedures to the assessed level of risk,

- avoid overly standardised or checklist-driven approaches, and
- apply professional judgment in selecting an appropriate audit strategy.

Further guidance is also needed on evaluating audit evidence and conclusions, particularly in complex scenarios. In particular:

- examples illustrating how to interpret and evaluate wide ranges,
- clearer direction on how such ranges should be assessed in relation to materiality, and
- guidance on determining whether differences between management's estimate and the auditor's range constitute a misstatement.

In addition, developing supporting materials for preparers (management and TCWG) would help clarify expectations around the quality and extent of supporting evidence, encouraging more effective engagement in the audit process.

Overall, enhanced example-driven guidance would support more consistent, proportionate, and judgment-focused application of ISA 540 (Revised), particularly in complex areas where challenges for auditors are the most pronounced.

Cristian Emmanuel Munarriz (Practitioner)

I suggest further clarity in the form of application guidance

Deloitte Touche Tohmatsu Limited (DTTL)

Emerging Technologies:

We acknowledge and support the recently formed multi-stakeholder Technology Expert Panel to support the development of guidance. As technologies continue to modernize business operations, corporate reporting processes, and auditing techniques, it will be important for the IAASB to stay connected with the profession on ways technology is being used in the audit and whether more substantive changes are needed to keep the standards relevant and workable in practice.

Guidance may be needed to address the application of ISA 540 (Revised) including, when testing management's accounting estimates developed using "black box" AI models. This may be considered as part of this post-implementation review process or as part of the broader technology project.

Developing an auditors point estimate or range:

Due to the challenges described in Question 23. above, we believe it would be beneficial for the IAASB to provide illustrative examples related to more complex estimates where an auditor's approach to responding to the assessed risk of material misstatement includes developing an auditor's independent range

Ernst & Young Global Limited (EY)

We recommend that the IAASB, in collaboration with the IESBA, develop targeted non-authoritative guidance to provide clarity on the potential emergence of independence threats when auditors employ a point estimate or range approach. Furthermore, it would be beneficial to address whether such threats can be effectively mitigated through safeguards, as well as to specify the nature of suitable safeguards. The guidance should include circumstances when management has not used an expert, but the auditor determines use of an auditor's expert is necessary.

Additionally, guidance on auditors' procedures addressing financial statement disclosures related to accounting estimates, including practical examples of how those disclosure procedures may be performed concurrently with the audit of the related estimates— would be helpful.

Grant Thornton International Ltd (GTI)

We suggest that non-authoritative guidance including practical examples that follow the auditor's evaluation of an accounting estimate through ISA 540 (Revised) from start to finish (that is, obtaining an understanding of the accounting estimate, designing and performing a response, completing the overall evaluation, and considering what to communicate) would assist auditors in evaluating misstatements. It would be helpful if such examples covered an accounting estimate that is typically not significant (for example, depreciation) in addition to accounting estimates commonly associated with risks on the higher end of the spectrum of inherent risk, including significant risks. A flowchart may also be a helpful way to illustrate the evaluation.

KPMG International Limited (KPMG)

We set out the following recommendations for further enhancements to the standard to address the challenges described above:

- We recommend that the IAASB explore additional enhancements to the revised standard to provide further clarification as to when only one of the required responses described at paragraph 18 would be appropriate, or when more than one, or a hybrid approach, may need to be taken by the auditor. We recommend that the IAASB provide illustrative examples, to demonstrate how each approach would be aligned to the specific characteristics of the estimate.
- We suggest that the application material provide additional clarity to assist the auditor in determining the further audit procedures to perform to obtain sufficient appropriate audit evidence in respect of mathematical accuracy of calculations in models. Such procedures may be directed to evaluation and testing of governance in respect of complex models, including related controls, and including those directed to ensuring model integrity and completeness of data, rather than end-to-end re performance of model calculations, which may be challenging, and, in the case of highly complex models processing high volumes of data, may be impracticable.
- We believe it would be helpful if the standard could clarify that when an auditor has determined that risks of material misstatement related to estimation uncertainty for less complex estimates are isolated to significant assumptions, and that if risks of material misstatement related to methods or data do not relate to judgments regarding their selection or application and therefore affect estimation uncertainty, then, while there may still be risks of material misstatement associated with these elements that need to be addressed in the audit, the required responses in paragraphs 23 and 25 may not be applicable. We believe such clarification would be commensurate with the intention of the standard to drive more targeted responses by auditors, when performing further audit procedures, that are focused on the underlying specific drivers of risks of material misstatement that have been identified by auditors as a result of performing a more rigorous risk assessment, including developing a more granular understanding of elements of management's estimation process. Paragraph 18 makes reference to further audit procedures "being responsive to the assessed risks of material misstatement... considering the reasons for the assessment given to those risks". We recommend that further clarification be included within this paragraph, and also at paragraph 22, in respect of the applicability of the subsequent paragraphs at 23-25.
- We also recommend that the application material address the scenario in which 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 methods, assumptions and data, management's point estimate may fall within the auditor's range. In these circumstances, while there may not be a material misstatement of the financial statements, there are likely to be control deficiencies in respect of management's estimation process, and we recommend that the application material explicitly guide the auditor to communicate such matters to those charged with governance. Furthermore, if the reporting entity discloses the inappropriate methods, significant assumptions or data used by management in the notes to the financial statements, this may be misleading to users and may constitute a material misstatement of the financial statements. Accordingly, we recommend that the standard highlight this and guide the auditor regarding the implications for the auditor's report, and the audit more broadly.
- In respect of estimates relating to financial instruments, we recommend that the IAASB explore clearer linkage between this standard and the concepts and requirements proposed in revised ISA 500, in

particular, in relation to the evaluation of the relevance and reliability of audit evidence, and consideration of the applicability of significant attributes of reliability. We note that this would provide greater clarity in respect of pricing information from recognized pricing services that is used as audit evidence in respect of valuation of financial instruments. We recommend that the IAASB consider including guidance material issued by the PCAOB and AICPA in this regard, which may be codified into the standard in a manner that retains principles-based requirements in the ISAs, or included in supplementary materials.

Luna Space Financial Company

Providing practical guidance, illustrative examples, and step-by-step flowcharts for responding to assessed risks of material misstatement would support smaller financial institutions and payments companies in applying ISA 540 consistently. Guidance on scaling audit procedures for complex estimates is particularly helpful.

Wing Tam (Principal, Forvis Mazar)

The IAASB could provide more practical, non-authoritative guidance and illustrative examples.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We suggest that the IAASB develop additional non-authoritative guidance and implementation support materials to assist auditors in applying the requirements of ISA 540 (Revised) in more complex circumstances.

In particular, stakeholders indicated that practical examples and case studies would be beneficial in areas involving complex methodologies, significant estimation uncertainty, specialised assumptions, and the use of management or auditor experts. Additional guidance illustrating the application of the different testing approaches, including testing management's process and developing an auditor's point estimate or range, would also support more consistent implementation.

Stakeholders further noted that the examples currently included in the standard do not fully reflect the complexity of estimates encountered in practice. As a result, there is a desire for more detailed and realistic case studies based on complex scenarios, including valuations and other estimates involving significant judgment, specialised methodologies and uncertainty. Such examples would assist practitioners in understanding how the principles and requirements of ISA 540 (Revised) can be applied in more challenging circumstances.

Stakeholders also noted that examples demonstrating how auditors may evaluate the appropriateness of methodologies, assess the accuracy and completeness of underlying data, challenge the work of experts, and determine reasonable auditor ranges would be particularly valuable. Such materials could help auditors apply the standard more consistently while maintaining a risk based and proportionate approach.

Stakeholders generally considered that practical implementation support, rather than significant amendments to the requirements of the standard, would be the most effective way of addressing the challenges identified.

Chartered Accountants Australia and New Zealand (CAANZ)

The examples provided in the standard are too simple. Practitioners may benefit from guidance and/or case studies based on real-life examples, of more complex estimates.

CPA Australia

Please refer to our response to Question 21.

In particular, we consider that additional implementation guidance and practical examples would be more helpful than changes to the requirements.

Institute of Certified Public Accountants of Kenya (ICPAK)

Issuing a non-authoritative guidance

Institute of Chartered Accountants in England and Wales (ICAEW)

Determining the most appropriate response(s) to assessed risks paragraph 18

Please see our response to question 13.

Determining whether to test the operating effectiveness of controls

ISA 540 (Revised) should be agnostic regarding the auditor's determination of whether controls testing is appropriate. Such a determination is a matter of judgment based on the auditor's understanding of the entity, estimate, and control environment.

Evaluating identified misstatements

We suggest that non-authoritative guidance be issued.

Institute of Singapore Chartered Accountants (ISCA)

IAASB could consider providing greater clarity and implementation guidance on the extent and nature of procedures and evidence required when evaluating the work of management's expert, particularly after the auditor has assessed the competence, capabilities, and objectivity of the expert.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

Malaysian Institute of Accountants (MIA Malaysia)

The IAASB could address these challenges through targeted practical guidance for ISA 540, clarifying how inherent risk assessments should be operationalised from the identification of significant versus non significant estimates through to the determination of appropriate, proportionate audit procedures. Additional application material or non-authoritative guidance could provide practical examples illustrating how audit effort may be scaled based on varying levels of estimation uncertainty, subjectivity, and judgment, including at the element or assumption level.

Malta Institute of Accountants (MIA Malta)

Additional non-authoritative guidance would be beneficial through practical worked examples that address key aspects of responding to assessed risks under ISA 540 (Revised). In particular, examples could illustrate how auditors select between different testing approaches, determine when a controls-based approach is appropriate, develop and evaluate auditor-derived point estimates or ranges, and assess misstatements where ranges are wide or where management's estimate lies at the edge of a reasonable range. Further guidance would also be valuable in addressing emerging challenges associated with AI

and "black box" models, including how auditors can respond when management uses opaque models, such as when it may be necessary to develop independent estimates, or how to evaluate controls and underlying data where model logic is not fully transparent. Illustrative scenarios focused on complex estimates would support auditors in understanding how to practically develop independent ranges, document key judgements in situations involving wide ranges, and link these assessments to conclusions on misstatement. Such guidance would enhance consistency and robustness in application without requiring amendments to the standard itself.

8. Others

ASK KSA Consulting Inc.

Non-authoritative guidance in this case.

EITMED

The IAASB could best address these matters through additional non-authoritative guidance, practical examples, and illustrative case studies rather than major standard-setting changes. In particular, guidance on selecting the most appropriate testing strategy, developing an auditor's point estimate or range, and evaluating misstatements where estimates are highly judgmental would be valuable. More examples showing how the response requirements can be scaled to different levels of estimation uncertainty and complexity would also help promote consistent application across engagements.

B. Narrow-Scope Amendments

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

3. Further clarification on the extent of documentation expected in lower-risk estimates would also help reduce unnecessary compliance burden while maintaining audit quality.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions (note that there is optionality in the suggestions for issues 1 and 2)

1. Difficulty determining the most appropriate response to the assessed RMM, particularly when is it appropriate to develop an auditor's point estimate or range [Issue raised in response to question 23]

- Root causes:

- o Misapplication of the ISA

- [Option B] [KEY] Narrow scope amendments to ISA 540 requirements and application material. Consider the following revisions:

- o Removing para. A118. In that case, ISA 540.18(c) as a testing approach would only be applicable when the situation in ISA 540.27(b) exists, i.e., where the auditor determines that management's response to the auditor's request to understand or address estimation uncertainty is an insufficient response.

- This change would necessitate further revisions to:

- ISA 540.18(c), to add conditionality of "if applicable," and include para 27(b) reference; and

➤ ISA 540.28 to replace “including when” with “as”

o Repurposing the first 4 bullets in para. A118 as application material related to 18(b)/27(a), and expanding that AM to describe that if those circumstances exist, the auditor would:

- 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 ISA 540(Revised).A118 describes circumstances where management's current period process is not expected to be effective, the entity's controls are not designed effectively or implemented, events or transactions between the period end and the date of the auditor's report have not been properly considered, or there are alternative assumptions that are appropriate. management has done so, the practitioner would apply the response in paragraph 18(b) to ‘test how management made the accounting estimate’; or

- if management does not, evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with paragraph 34.

o When making these revisions, consider:

- where to relocate paras. A119-A120; and

- whether additional AM on scalability is needed, for practitioners who tend to default to ISA 540.18(c) when they cannot obtain sufficient appropriate audit evidence from subsequent events, and who audit entities with less robust systems, processes and controls over accounting estimates.

2. When ranges are used, challenges arise in determining whether the accounting estimate is reasonable in the context of the applicable financial reporting framework, or is misstated [Issue raised in response to question 23]

- Root causes:

o Misapplication of the ISA

o Lack of clarity/insufficiency in the Req/AM

- [Option B] Narrow scope amendments to ISA 540 application material: Consider clarifying in AM or expanding existing AM to explain:

o How the auditor would determine whether the measurement outcome selected from a range of reasonably possible outcomes within a range, in the scenarios described in the challenge column, is reasonable in the context of the applicable financial reporting framework or is misstated.

o How the auditor evaluates misstatement when the measurement outcome selected falls within the range of reasonably possible outcomes but is not considered by the auditor to represent the most favorable outcome (i.e., where it is not the measurement amount that is most likely or that is more likely than not (para. A47)).

o How to determine the most favorable measurement outcome, when ranges are developed, linked to consideration of the impact of management bias on the measurement outcome (paras. 32, A133-A136).

o Use examples of accounting estimates where the range of possible outcomes may be multiples of materiality for the financial statements as a whole. For example, pension obligations or pension assets.

C. Other Suggestions

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

The IAASB could consider the following actions to support more consistent and effective implementation of ISA 540 (Revised):

1. Continue engagement with regulators, oversight bodies, and other stakeholders to monitor implementation trends and inspection findings in order to identify areas where further guidance or standard-setting activity may be beneficial.

Lesotho Institute of Accountants

In addition, continued engagement with regulators, practitioners, and other stakeholders, together with the sharing of good practices identified through inspection activities, would help promote consistent and effective implementation of the standard and inform future enhancements to guidance and support materials.

5. Jurisdictional and Other Standards Setters (JSS)

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. Consequently, we do not believe any further IAASB action is necessary in this area at this time.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

6. Accounting Firms

Baker Tilly International (BKTi)

n/a- the standard is generally clear in setting expectations around methods, assumptions, data, controls and documentation. The challenges observed appear to arise more from implementation in practice, including the level of auditor experience, scepticism and consistency of execution.

RSM International Limited (RSM)

We do not believe that the issues and challenges identified in relation to responding to assessed risks of material misstatement and the overall evaluation of accounting estimates and related disclosures are due to a lack of clarity or insufficiency in the requirements or application material of ISA 540 (Revised). The standard is regarded as clear, comprehensive and conceptually robust.

Consistent with our responses to earlier questions, the challenges observed are primarily practical and implementation-driven, reflecting the level of judgement required in applying the standard, particularly in more complex or expert-driven estimation areas. These include determining the most appropriate testing

approach, evaluating differences between auditor and management estimates, and navigating practical considerations such as the use of experts and independence constraints.

Accordingly, we do not believe that further standard-setting or additional non-authoritative guidance is necessary to address these matters. Rather, the issues identified are best addressed through firm-level training, methodology and communication with a focus on strengthening auditors' understanding of the underlying objectives of the procedures required by ISA 540 (Revised) and the rationale for their application.

We encourage continued emphasis on enhancing practical understanding and consistent application in practice, rather than changes to the standard or the development of additional guidance.

7. Professional Accountancy Organizations

Accountancy Europe (AE)

The challenges identified relate in particular to developing and evaluating auditor point estimates or ranges, understanding and testing complex models, and maintaining auditor objectivity when auditor-developed assumptions are used. Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the practical difficulties encountered in these areas and whether they arise from the requirements of the standard itself or from implementation in practice.

Whether through implementation support, standard-setting activities or a combination of both, the objective should be to promote a more proportionate, simplified and streamlined application of ISA 540 (Revised).

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.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials.

D. 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 no proposal.

Chamber of Auditors of the Czech Republic

UK Financial Reporting Council (UK FRC)

See responses to Q23 above.

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)

Crowe Solutions for Professional Consultancy

None

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

None

ELVI Audit FINANS LLC

Forvis Mazars Global Limited (Mazars)

Housam Halawa (Practitioner)

None

Kia Atlas (Director, RSM)

Same as my previous response

Natiq Əliyev (Practitioner)

qeyri-səlahiyyətli rəhbərlik

PricewaterhouseCoopers International Limited (PwC)

No response

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Zamin Huseynov (Director, Crowe LLP)

none

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 Uganda (ICPAU)

Institute of Chartered Accountants of Ghana

International Federation of Accountants (IFAC)

Already covered in previous questions

Nordic Federation of Public Accountants (NRF))

We refer to our response to Q 13.

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

Not applicable

Virgina Society of CPAs Audit and Accounting Committee

See comments from prior question

8. Others

Saudi Awwal Bank (SAB)

Trust Consulting and Training LLC

Difficult to Determine

Question 29

What specific suggestions do you have for how the IAASB can best address the issues or challenges related to *other matters* you have identified (e.g., standard-setting, non-authoritative guidance, or other

actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow-Scope Amendments](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

4. Regulators and Audit and Assurance Oversight Bodies

Botswana Accountancy Oversight Authority (BAOA)

The IAASB may consider issuing more practical implementation guidance and industry-specific illustrative examples, particularly for smaller and medium-sized audit practices. Additional non-authoritative guidance on auditing complex estimates, management bias, forward-looking assumptions, and the use of external experts would improve consistency in application. Further clarification on the extent of documentation expected in lower-risk estimates would also help reduce unnecessary compliance burden while maintaining audit quality.

The IAASB could also address these challenges by developing more practical non-authoritative guidance on the use of auditor's experts, including when to involve them, how to evaluate their work, and how to integrate their findings into the overall audit conclusion.

Independent Regulatory Board for Auditors (IRBA)

We recommend narrow-scope amendments to the standard related to group audits, and to provide for any required amendments that will ensure the standard remains future-fit, with non-authoritative guidance to support the practical implementation of the documentation requirements and the work required to be performed to use the work of an auditor's expert.

Lesotho Institute of Accountants

The IAASB should consider developing additional non-authoritative guidance and illustrative examples dealing with communications, specialized skills or knowledge, use of auditor's experts, and documentation under ISA 540 (Revised).

This guidance should help auditors determine which matters relating to accounting estimates should be communicated to management and those charged with governance, when expert involvement is necessary, how to evaluate an expert's competence, objectivity and integrate their work and how to prepare proportionate audit documentation that demonstrates compliance without unnecessary over-documentation.

The IAASB could also provide simplified documentation templates and examples demonstrating how key judgments, risk assessments, and professional skepticism can be documented efficiently without unnecessary burden. Enhanced training resources and case studies, particularly for smaller firms and less complex audits, would further support effective implementation.

Public Accountants and Auditors Board Zimbabwe (PAABZ)

The IAASB could provide additional practical guidance and illustrative examples demonstrating how auditors can effectively apply professional skepticism when auditing accounting estimates, particularly in areas involving significant judgment, estimation uncertainty, and complex models. Guidance on identifying indicators of management bias and examples of effective challenge procedures would also be beneficial.

In addition, the IAASB could develop industry-specific case studies and training materials to support consistent application of professional skepticism across different audit environments. Such resources would help auditors exercise appropriate challenge while maintaining professional relationships with management and those charged with governance.

Saudi Central Bank (SAMA)

IAASB should develop practical guidance on when auditor's experts are required for common regulated-sector estimates, along with documentation templates or examples that illustrate adequate compliance with paragraph 39 requirements for firms of varying sizes

UK Financial Reporting Council (UK FRC)

The IAASB may wish to consider further guidance and illustrative examples on the stand back requirement to support practitioners in applying the principles of ISA (540) Revised.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

Input Suggestions

1. Communications with Those Charged with Governance, Mgmt., or Other Relevant parties [Issue raised in response to question 27]:

- See Q13 for the suggestions regarding scalability of the requirement in ISA 540 (Revised).38.

2. Inappropriate determination of whether the engagement team requires specialized skills or knowledge [Issue raised in response to question 27]

- Root cause: Misapplication of the ISA

- Suggest: Consider expanding existing NAG by:

- o In ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB:

- Expanding Example 1 to explain how the auditor determined that specialized skills were not required, particularly with respect to the value of professional cameras; and
- Adding a third example where it is not as clear that the auditor would/would not require specialized skills to apply ISA 540 to the accounting estimate.

Group of Latin American Accounting Standards Setters (GLASS)

We believe non-authoritative guidance and maybe moving the clarification in p.A150 to the requirements.

Hong Kong Institute of Certified Public Accountants (HKICPA)

Since the issues or challenges arise from practical implementation of the Standard, it is recommended that the IAASB develop:

- practical guidance on the appropriate level of review of the work of the auditor's expert; and

- documentation templates as non authoritative guidance to enhance quality of audit documentation, while preserving the principles based nature of the Standard and the exercise of professional judgment.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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

It may be beneficial to include a practical example in a case study to clarify the scope of work expected by an auditor's expert versus the work to be completed by the audit team. This may be more related to the application of ISA 620. We would encourage further non-authoritative guidance related to paragraphs A61 - A63 in determining the appropriate expert to engage particularly when there is a divergence in practice or areas known to be subject to differing interpretation.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Non-authoritative materials (e.g. practical examples), laying out the approach to the proper documentation of the estimates assessment, can be helpful to enhance the application of the documentation requirements.

6. Accounting Firms

Baker Tilly International (BKTi)

The challenges observed are not primarily due to a lack of clarity in ISA 540 (Revised). The requirements relating to documentation, communication, and use of experts are generally clear. The issues are more closely linked to practical application, auditor experience, and consistency of execution, particularly in exercising sufficient challenge and documenting conclusions.

Having said that, IAASB could best address these challenges through additional non-authoritative guidance and practical examples. In particular, further illustrative material would be helpful on how to evaluate the work of external experts, challenge assumptions in valuation reports, and document key judgments in a proportionate manner.

BDO International Limited (BDO)

To address challenges in the use of experts, there is a clear need for the IAASB to provide greater clarity and more practical guidance to support consistent application in practice.

A key priority is to clarify auditor responsibilities when using specialists and auditor's experts, including:

- more explicit expectations for auditor involvement in planning, supervising, reviewing, and challenging expert work, including the timing of this involvement,

- clearer guidance on the level of evaluation required when an auditor's expert assesses the work of a management expert, and
- better definition of what constitutes sufficient audit evidence and documentation in these scenarios.

Further alignment with ISA 315 and ISA 620, supported by integrated guidance, would help ensure a more cohesive, risk-based approach and reduce inconsistencies across engagements.

In addition, the development of practical, example-driven non-authoritative materials—including case studies—would be highly beneficial. These should demonstrate:

- how to apply a proportionate and risk-focused approach to using experts, particularly for higher-risk estimates,
- how auditors should challenge and evaluate expert work in practice, and
- how to document this work effectively without unnecessary complexity.

Overall, enhanced clarity and non-authoritative guidance would help reduce divergence in practice, strengthen auditor judgment, and support more consistent and effective use of experts, particularly in complex and highly judgmental areas.

Cristian Emmanuel Munarriz (Practitioner)

I think non-authoritative guidance and maybe moving the clarification in p.A150 to the requirements

Deloitte Touche Tohmatsu Limited (DTTL)

Management's Expert:

We believe there would be a benefit in providing additional guidance to support consistent application of the standard.

Ernst & Young Global Limited (EY)

Refer to our response to Question 13 regarding our suggestion to create examples demonstrating how documentation can be scaled for simple, low risk accounting estimates.

Refer to our response to Question 17 regarding our suggestion for guidance that illustrates audit documentation practices that demonstrate the exercise of professional skepticism.

Luna Space Financial Company

To address the identified issues and challenges, the IAASB could enhance practical guidance by providing more illustrative examples, case studies, and flowcharts to demonstrate application in financial institutions and payments companies. Step-by step guidance on risk assessment, professional skepticism, responding to assessed risks, and documentation would help ensure consistent application. Additional clarity on when and how to involve an auditor's expert and scale audit procedures for smaller or specialized entities would also be beneficial

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

We suggest that the IAASB develops additional non-authoritative guidance and practical implementation materials to support the

application of ISA 540 (Revised), particularly in relation to documentation, the use of specialists, and the audit of complex accounting estimates involving significant estimation uncertainty.

From a documentation perspective, stakeholders identified two areas where additional clarification would help simplify the standard's implementation and reduce unnecessary documentation effort. The first relates to accounting estimates where the risk of material misstatement is assessed as low or at the lower end of the spectrum of inherent risk. Additional guidance on how the nature and extent of procedures, and the related documentation expectations, may be scaled in such circumstances would be beneficial. The second relates to the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), where stakeholders continue to observe potential duplication of procedures and documentation requirements.

Stakeholders also noted that the use of specialists and experts is an area where additional case studies and practical examples would be particularly valuable. Examples demonstrating how auditors may evaluate and challenge the work of experts, exercise professional scepticism, and appropriately document the procedures performed and conclusions reached would support more consistent application in practice.

Overall, we consider that additional implementation support, together with a coordinated approach to targeted future standard setting activities, would be the most effective way of addressing the challenges identified.

CPA Australia

Overall, it is difficult to determine whether the issues identified arise from ISA 540 (Revised) itself or from broader developments in audit practice, technology and the wider standards framework.

Rapid developments in valuation methods, specialist tools and increasingly complex or "black box" models are creating new challenges for understanding, challenging and documenting audit work. At the same time, practitioners continue to face difficulty documenting work proportionately for simpler estimates, particularly in SME environments.

In our view, this supports a measured response focused on targeted clarification and practical implementation support, rather than broad changes to the standard.

Institute of Certified Public Accountants of Kenya (ICPAK)

Issuing a non-authoritative guidance

Institute of Chartered Accountants in England and Wales (ICAEW)

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

We suggest that the IAASB produce illustrative examples highlighting circumstances in which the use of experts may – and those in which they may not – be necessary

Preparing appropriate audit documentation

ISQM 1 is based on the presumption of proportionality in all areas, including documentation. Guidance emphasising this, and what it means in the context of estimates, would be helpful.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

Certain areas, particularly those involving complex professional judgments, the use of experts, and the expected level of documentation, could benefit from more practical and detailed application material and implementation guidance.

The challenges observed appear to be more closely related to the inherent complexity of accounting estimates, differences in technical expertise across firms and jurisdictions, and the need to exercise professional judgment in a variety of circumstances. In particular, additional illustrative examples and implementation guidance could be developed to promote a more consistent and proportionate application of the standard.

International Federation of Accountants (IFAC)

IFAC also encourages the IAASB to provide practical support on documentation and use of specialized skills in complex or technology-enabled estimate environments. This would be particularly helpful where management uses complex models or AI supported tools that may be inherently difficult for auditors to understand or challenge.

Malta Institute of Accountants (MIA Malta)

Additional non-authoritative guidance would be beneficial in providing practical support across several key areas of application under ISA 540 (Revised). In particular, guidance could include indicators or triggers for when specialist involvement is appropriate, alongside clarification of how the standard interacts with requirements on using the work of management's and auditor's experts. Further illustrative examples would also support more consistent practice, including concise yet robust documentation, effective communication with those charged with governance on significant estimates, and the treatment of external information sources, pricing data, and system-generated outputs. In addition, practical scenarios demonstrating different approaches to auditing complex estimates, such as testing management's process, developing independent estimates, or using subsequent events, would be valuable, particularly where they show how to select an appropriate response and integrate and document the various considerations and evidence in a coherent manner. Such enhancements would strengthen practical implementation and consistency without requiring changes to the standard itself.

8. Others

ASK KSA Consulting Inc.

Non-authoritative guidance.

EITMED

The IAASB could best address these matters through additional non-authoritative guidance and practical examples. More illustrative material on communicating significant matters related to accounting estimates, determining when to involve an auditor's expert, and documenting judgments and conclusions would be helpful. Guidance on the expected level of documentation for estimates of varying complexity could also support more consistent application across engagements. Where appropriate, case studies showing coordination between the auditor, management, those charged with governance, and experts would further enhance implementation

B. Narrow-Scope Amendments

4. Regulators and Audit and Assurance Oversight Bodies

Independent Regulatory Board for Auditors (IRBA)

We recommend narrow-scope amendments to the standard related to group audits, and to provide for any required amendments that will ensure the standard remains future-fit, with non-authoritative guidance to support the practical implementation of the documentation requirements and the work required to be performed to use the work of an auditor's expert.

Group of Latin American Accounting Standards Setters (GLASS)

We believe non-authoritative guidance and maybe moving the clarification in p.A150 to the requirements.

Institut der Wirtschaftsprüfer (IDW)

If the suggestions made in our responses to questions 13 and 21 are adopted, we consider that an additional benefit will be the streamlining of documentation requirements.

Improving alignment between ISA 315 (Revised 2019) and ISA 540 (Revised) in this way, together with clearer guidance on the circumstances in which ISA 540 (Revised) is intended to be applied, would promote more consistent and proportionate documentation practices.

Cristian Emmanuel Munarriz (Practitioner)

I think non-authoritative guidance and maybe moving the clarification in p.A150 to the requirements

7. Professional Accountancy Organizations

Accountancy Europe (AE)

In less complex circumstances and for smaller audit engagements, challenges relating to the application of the requirements concerning specialised skills or knowledge and documentation were observed.

The IAASB may wish to consider whether opportunities exist to further simplify and streamline these requirements, while maintaining audit quality and promoting a more proportionate approach. Particular attention could be given to clarifying expectations regarding the involvement of specialists and experts, as well as avoiding unnecessary documentation and work effort where accounting estimates are straightforward and the associated risks are lower.

At the same time, stakeholders identified several critical implementation challenges and areas where further support may be beneficial and consideration of changes to the requirements in the standard may be necessary.

Chartered Accountants Australia and New Zealand (CAANZ)

Overall there are two aspects which may simplify the documentation in ISA 540.

- Clarifying the work effort required for estimates where the risk of material misstatement is assessed as acceptably low or at the lower end of the spectrum of acceptable risk.
- Ensuring that ISA 540 (Revised) and ISA 315 are integrated to avoid duplication of procedures and documentation. In relation to the use of experts, this is another area where case studies and examples would be useful to provide practitioners with clear examples of how these matters are documented to demonstrate sufficient professional scepticism.

Global Accounting Alliance (GAA)

If the suggestions made in our responses to questions 13 and 21 are adopted, we consider that an additional benefit will be the streamlining of documentation requirements.

Improving alignment between ISA 315 (Revised 2019) and ISA 540 (Revised) in this way, together with clearer guidance on the circumstances in which ISA 540 (Revised) is intended to be applied, would promote more consistent and proportionate documentation practices.

International Federation of Accountants (IFAC)

As discussed in our earlier responses, narrowing the scope of ISA 540 (Revised) so that it only applies estimates with significant estimation uncertainty would be helpful in reducing the documentation burden.

C. Other Suggestions

4. Regulators and Audit and Assurance Oversight Bodies

Chamber of Auditors of the Czech Republic

At this stage, no specific additional actions appear necessary in relation to ISA 540 (Revised).

Lesotho Institute of Accountants

Continued stakeholder engagement and the sharing of good practices would help promote consistency, scalability, and audit quality.

5. Jurisdictional and Other Standards Setters (JSS)

Auditing and Assurance Standards Board of Canada (AASB)

o Republishing and re-promoting ISA 540 (Revised)

Implementation: Illustrative Examples for Auditing Expected Credit Loss Accounting Estimates | IAASB given the use of experts is contemplated in each of the three examples.

South Africa Institute of Chartered Accountants (SAICA)

Use of Experts (ISA 620 Interaction) - Misunderstanding of the division of responsibilities between audit teams and experts.

Documentation Complexity - Ongoing uncertainty about the extent of documentation required, particularly in navigating the interaction between ISA 540 (Revised), ISA 315 (Revised 2019), ISA 620, and ISA 230.

6. Accounting Firms

RSM International Limited (RSM)

We do not believe that the issues and challenges identified in relation to communications, the use of specialised skills or knowledge, or documentation warrant changes to the requirements or application material of ISA 540 (Revised). Consistent with our responses to earlier questions, these matters are not the result of a lack of clarity or insufficiency in the standard but rather reflect practical and implementation-related considerations.

We also do not believe that additional non-authoritative guidance or further standard-setting is necessary. The challenges observed—particularly in relation to effectively communicating observations about management's estimation processes, appropriately involving and utilising auditor's experts, and ensuring that audit documentation fully reflects the work performed and judgements made—are best addressed at the firm level.

In our view, audit firms and networks are best positioned to support improvements in these areas through targeted training, strengthened methodologies and enhanced internal guidance. In particular, continued focus on reinforcing the underlying objectives of audit procedures, improving communication practices and promoting robust documentation discipline will support more consistent and effective application in practice.

We recommend that efforts be directed towards encouraging firms and networks to strengthen implementation through firm and network-led initiatives, rather than through additional actions by the IAASB.

7. Professional Accountancy Organizations

Association of Chartered Certified Accountants (ACCA)

Finally, stakeholders encouraged the IAASB to consider the interaction of ISA 540 (Revised) with other ongoing standard-setting projects, including those relating to audit evidence and technology. Before undertaking significant revisions to ISA 540 (Revised), stakeholders believe it would be beneficial for the IAASB to assess how any changes arising from those projects may affect the application of ISA 540 (Revised), and whether they address some of the implementation challenges identified through this review.

Chartered Accountants Australia and New Zealand (CAANZ)

The board also needs to consider the impact of other projects currently undertaken such as the audit evidence and technology projects to determine how any standard setting changes that result from those projects impact ISA 540 before undertaking any revisions to ISA 540.

CPA Australia

Any broader consideration of revisions to ISA 540 (Revised) should be undertaken in conjunction with the post-implementation review of ISA 315 (Revised 2019), given the close interaction between the two standards in practice. Priority areas for support include:

- Proportionate work effort and documentation for simple and lower-risk estimates; and
- documentation in complex, technology-enabled or model-driven estimate environments.

8. Others

Saudi Awwal Bank (SAB)

An emphasis that auditor shall perform the audit with critical mind at all stages of the audit

D. 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 no proposal.

5. Jurisdictional and Other Standards Setters (JSS)

Australian Auditing and Assurance Standards Board (AuASB)

Japanese Institute of Certified Public Accountants (JICPA)

NA

Royal Netherlands Institute of Chartered Accountants (NBA)

We refer to section III of this document

6. Accounting Firms

Alzoman, Alfahad & Alhajjaj Professional Services

None

BKR ISIK Consulting (International Auditor Company)

Crowe Solutions for Professional Consultancy

Already mentioned in previous responses.

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

None

ELVI Audit FINANS LLC

Forvis Mazars Global Limited (Mazars)

Grant Thornton International Ltd (GTI)

No suggested actions at this time.

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)

N/A

Qulu Cebizade (Practitioner)

Shamistan Suleyman (Practitioner)

Sultan Ahmed Alshubaily CPA (Practitioner)

Wing Tam (Principal, Forvis Mazar)

N/A

Zamin Huseynov (Director, Crowe LLP)

none

7. Professional Accountancy Organizations

Chartered Accountants Ireland (CAI)

N/A

European Federation of Accountants and Auditors for SMEs (EFAA)

None

Ibracon - Brazil Institute of Independent Auditors

Institute of Certified Public Accountants of Uganda (ICPAU)

Institute of Chartered Accountants of Ghana

Institute of Singapore Chartered Accountants (ISCA)

-

Malaysian Institute of Accountants (MIA Malaysia)

-

Nordic Federation of Public Accountants (NRF))

We refer to our response to Q 13.

Pan African Federation of Accountants (PAFA)

The Malaysian Institute of Certified Public Accountants

Not applicable

Virgina Society of CPAs Audit and Accounting Committee

See comments to prior question

8. Others

Trust Consulting and Training LLC

I have no suggestions.

Question 12

What specific suggestions do you have for how the IAASB can best address any issues or challenges related to auditing accounting estimates (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [B. Narrow Scope Amendments](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

2. Users of Financial Statements

Bank Aljazira

Providing additional implementation guidance and practical examples would further support consistent application of ISA540 (Revised)

European Federation of Financial Analysts' Societies (EFFAS)

Non-authoritative and homogeneous guidance, as specific as possible, should be sufficient. Standard might add an element of difficulty and additional complexity to provide information that by its nature is uncertain.

Rasid Payments Company

To address the structural friction, scalability issues, and documentation burdens exposed during the Post-Implementation Review of ISA 540 (Revised), the International Auditing and Assurance Standards Board (IAASB) should deploy a targeted mix of standard-setting refinements, practical guidance, and strategic collaborations.

The most effective, actionable suggestions for how the IAASB can address these challenges are structured below by action type:

1. Non-Authoritative Guidance (Immediate Priority)

Because full standard-setting takes years, the IAASB should prioritize issuing immediate, practical toolkits to bridge the gap between compliance theory and field execution.

- "Proportionality Profiles" for SMPs: Publish dedicated, sector-specific application guides for Small and Medium Practices (SMPs). These profiles should provide concrete examples of what a compliant, scaled-down audit looks like for common, low risk estimates (e.g., standard asset depreciation or routine inventory obsolescence provisions).
- MAD Framework Documentation Matrix: Create standardized templates and flowcharts mapping out the exact minimum documentation required when analyzing management's Methods, Assumptions, and Data (MAD). This will reduce repetitive, narrative over-documentation.
- Guidance on "Sufficient" Corroborative Evidence: Clarify when an auditor has done "enough" to fulfill the stand-back requirement, giving practitioners clear boundaries on when they can stop hunting for contradictory evidence without fearing regulatory pushback.

3. Preparers or Issuers of Financial Statements, Including TCWG

Geidea Company

Provide more practical examples and case studies in non-authoritative guidance to help demonstrate how to apply ISA 540 (Revised) in a more proportionate way, especially for less complex estimates.

Further non-authoritative guidance could be developed with practical examples focused on applying professional skepticism in complex and judgmental accounting estimates. This could include illustrations on identifying management bias and evaluating contradictory audit evidence to support more consistent application in practice.

Providing additional non-authoritative guidance with practical examples and case studies on applying risk assessment procedures to complex accounting estimates would be helpful. This could include clearer illustrations on how to consider inherent risk factors, estimation uncertainty, and the linkage with ISA 315 (Revised 2019), to support more consistent application in practice.

Providing additional non-authoritative guidance with practical examples and case studies focused on audit responses to complex accounting estimates would be helpful. This could include illustrations on developing auditor point estimates or ranges, evaluating management estimates, and applying appropriate audit procedures in high estimation uncertainty areas to support more consistent application in practice.

Providing additional non-authoritative guidance with practical examples would be helpful, particularly on determining when to involve an auditor's expert, the expected level of communication around accounting estimates, and the appropriate extent of audit documentation. This would support more consistent application of ISA 540 (Revised) in practice.

The IAASB could further support implementation through additional non-authoritative guidance, including practical examples and case studies on auditing complex accounting estimates. This could focus on applying proportionality in audit procedures, developing auditor point estimates or ranges, and improving consistency in evaluating estimation uncertainty and related disclosures.

Lendo Saudi Arabia for Financing Company

We offer the following specific suggestions:

1. Sector-specific non-authoritative guidance

Develop additional illustrative examples and guidance tailored to the financial services sector, particularly around IFRS 9 ECL estimation, including PD/LGD methodology, macroeconomic scenario selection, and staging criteria. This would benefit both preparers and auditors in achieving consistent and proportionate application of the standard.

2. Proportionality guidance for smaller and emerging market entities

Issue specific guidance on the proportionate application of ISA 540 (Revised) for smaller entities and those operating in emerging markets where historical data availability, model sophistication, and expert resource access may differ significantly from larger institutions. A tiered or scalable approach to certain requirements would be helpful.

3. Consistency in auditor application

The IAASB should consider developing more prescriptive benchmarks or illustrative examples to promote greater consistency in how auditors interpret and apply the revised standard across different engagement teams and jurisdictions. This would reduce variability in auditor expectations and ease the burden on preparers.

4. Continued expansion of support tools

We encourage the IAASB to continue expanding the non-authoritative support materials on the ISA 540 Implementation Webpage, with a focus on practical, real-world examples that reflect the complexity of modern financial instruments and estimation techniques used across different industries and geographies.

5. Ongoing post-implementation review

We support the IAASB's post-implementation review process and encourage continued engagement with preparers not just auditors and standard setters — to ensure the standard continues to evolve in a way that is practical, proportionate, and effective in driving genuine improvements in audit and financial reporting quality.

Madfu BNPL Financing Company

Providing more industry specific examples, particularly for FinTech and BNPL sectors, would be beneficial to ensure consistent application of the standard across emerging financial services.

Mike Reid

Guidance is key as invariably there will be different interpretations of various requirements and the guidance helps moderate the grey areas.

STC Bank

It would be great to see a non-authoritative guidance for the same being issued in due time.

B. Narrow Scope Amendments

2. Users of Financial Statements

Rasid Payments Company

2. Targeted Standard-Setting & Revisions (Medium Term)

The IAASB should introduce narrow-scope amendments to align ISA 540 (Revised) with other updated standards and correct architectural pain points.

- Harmonize with ISA 315 (Revised): Issue narrow-scope amendments to explicitly align the terminology of ISA 540's inherent risk spectrum with ISA 315 (Revised). Specifically, streamline the separate, redundant risk assessment steps at the assertion level for simple estimates.
- Carve-outs for Less Complex Entities: Formally bridge ISA 540 requirements into the newly developed ISA for LCE (Less Complex Entities) standard. This would structurally remove the complex inherent risk factor matrix for entities that do not possess intricate financial instruments or complex valuation models.
- Refine the Definition of "Significant Assumptions": Narrow the threshold of what qualifies as a significant assumption. Restricting this to assumptions that directly drive high estimation uncertainty prevents audit teams from treating every minor model input as a high-risk factor.

C. Other Suggestions

2. Users of Financial Statements

Kei Tsuchiya (The Securities Analyst Association of Japan)

I am not aware of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised). However, if these materials include content that explains the relationship with Key Audit Matters (KAM), they would be helpful in enhancing the understandability for users of financial statements.

3. Preparers or Issuers of Financial Statements, Including TCWG

Banque Saudi Fransi (BSF)

Sharing findings, as well as any resulting actions/projects, with the public from this post implementation review of the various stakeholder survey responses.

D. No Specific Responses

2. Users of Financial Statements

Credicorp Ltd.

Gulf International Bank KSA

NA

3. Preparers or Issuers of Financial Statements, Including TCWG

Ahmed Alfaraj

AJIL Financial Services Company

No comments.

Alinma Bank

Nothing to report.

Arab National Bank

None.

Credit (Digital Financing From Anywhere)

We have no specific suggestions at this stage, as our organization has not yet commenced operations.

Emirates National Bank of Dubai

Hala Payments

Masar Finance Company

National Bank of Kuwait, KSA

Nayifat Finance Company

Rami Aljabri

Saudi Real Estate Refinance

SNB

Question 12

What specific suggestions do you have for how the IAASB can best address any issues or challenges related to auditing accounting estimates (e.g., standard-setting, non-authoritative guidance, or other actions)?

Significant Themes

- [A. Non-Authoritative Materials](#)
- [C. Other Suggestions](#)
- [D. No Specific Responses](#)

A. Non-Authoritative Materials

C. Other Suggestions

D. No Specific Responses