

# ISA 540 (Revised) Post-Implementation Survey

## AASB Preliminary Response to the IAASB

### Section II: About the Respondent

- Please provide the following information about your organization (if applicable) and other contact information:

Organization (or leave blank if you are completing the survey in your personal capacity)	Audit and Assurance Standards Board (Canada)
Name(s) of contact(s) for this submission	Karen DeGiobbi
Job title or role	Director
E-mail address(es) of contact(s)	kdegiobbi@asbcanada.ca

- Please select from the following options the stakeholder group to which you or your organization belongs:

Accounting Firm – Global Accounting Firm	
Accounting Firm – Large National or Regional Accounting Firm	
Accounting Firm – Small- or Medium-Sized Accounting Firm	
Accounting Firm – Sole Practitioner	
Accounting Firm – Public Sector Audit Institution	
Jurisdictional Standard Setter (JSS) or Other Standard Setter	X
Professional Accountancy or Professional Organization (PAOs)	
Regulator or Audit and Assurance Oversight Body	
Preparer or Issuer of Financial Statements (Including Public Sector Organizations), or Those Charged with Governance (TCWG)	
Users of Financial Statements (e.g. investor, analyst, lender or other creditor)	
Academia	
Other – Specify	

3. Select from the following options the geographical region that best matches you or your organization:

Africa	
Asia Pacific	
Europe	
South America	
Middle East	
North America	X
Global	

4. Did you undertake outreach activities with other stakeholders outside your organization to inform your responses to this survey?

Yes	X	No
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4A. **[If the response to question 4 is yes]** Please provide further information about your outreach activities, including:

<p>The manner in which the outreach was undertaken.</p>	<p><b>Canadian activities to inform</b> the AASB's response to this survey included:</p> <ul style="list-style-type: none"> <li>• <b>Virtual roundtable discussions:</b> English and French sessions open to the public were held in the first week of April.</li> <li>• <b>Targeted outreach:</b> 9 Meetings with various other groups and committees that represent regulators, practitioners (large-firm, SMPs and public sector), and advisors from the Provincial or Territorial CPA Bodies, with discussions tailored to auditing estimates matters that are relevant to each group.</li> </ul> <p><b>In addition,</b> we shared information on the IAASB ISA 540 post-implementation review (PIR), including the public consultation survey and Canadian activities to inform the AASB's response. These activities were promoted across the standard-setting ecosystem, including relevant Board committees, to generate interest in participating in outreach.</p>
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The nature and number (or estimate thereof) of stakeholders with whom you engaged.

Engaged with approximately 110 individuals through the outreach activities described above, including:

- 12 practitioners from large firms
- 43 practitioners from small and medium firms
- 20 public sector practitioners
- 3 other non-CPA practitioners
- 10 regulators
- 14 professional advisors from CPA provincial or territorial bodies
- 6 academics
- 2 financial statement preparers

5. You are welcome to provide any additional information you believe may be relevant to clarify the context in which you are completing the survey, or the circumstances or experiences that have informed your views or perspectives (or you can choose to leave this question blank).

Input

The AASB considers it important to provide the IAASB with our views on potential next steps arising from their PIR of ISA 540 (Revised).

**Overall Direction: Next Steps for ISA 540 (Revised)**

- **Overall, parties we engaged with were of the view that ISA 540 (Revised) is a robust standard that is not fundamentally flawed.** Feedback from outreach indicated that issues and challenges are mainly the result of misapplication of the requirements and application material, rather than deficiencies in the standard itself.
- The AASB recommends the following way forward:
  - **Non-authoritative guidance (NAG):** updating NAG to:
    - Correct references to standards that have been revised since the ISA 540 (Revised) NAG was initially published (e.g., ISA 315 (Revised)) and encouraging jurisdictional standard setters to raise awareness about the updated NAG in their ecosystem; and
    - Address the issues and challenges identified in our responses below, where NAG updates were suggested.

- **Narrow-scope amendments:** address several issues and challenges identified in our responses below, where narrow-scope amendments were suggested. **Some of the key suggestions are:**

- [Suggestion 2 in question 13](#)
- [Suggestion 2 in Question 21](#)
- [Suggestion 1 in Question 25](#)

Accordingly, **we recommend that ISA 540 (Revised) be reopened in the future to make these narrow scope amendments.** However, ISA 315 (Revised) and ISA 540 (Revised) are inherently interdependent. ISA 315 establishes the framework for understanding of the entity and assessing risks, which ISA 540 builds upon by specifying how to apply those principles to the audit of accounting estimates. The IAASB has planned a PIR of ISA 315 (Revised) in its current workplan. Therefore, **we recommend that any project to revise ISA 540 be coordinated with, and integrated into, any resulting recommendations from the ISA 315 PIR.**

### Section III: Overall Questions

This section focuses on whether ISA 540 (Revised) has achieved its intended purposes and objectives.

In revising ISA 540, the IAASB aimed to:

- (a) Establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. These revisions would also emphasize the importance of the appropriate application of professional skepticism when auditing accounting estimates.
- (b) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed.

The IAASB also issued non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams and illustrative examples (refer to the [ISA 540 Implementation Webpage](#)).

#### *Additional Information*

Please note, the questions in this section are overarching in nature and allow respondents to share overall views without getting into details. The specific questions in **Sections IV** and **V** that follow provide opportunity for respondents to comment in more detail on specific aspects related to auditing of accounting estimates.

6. Please provide overall views about whether ISA 540 (Revised) has achieved its intended purpose and the objectives of the IAASB in developing the revised standard.

#### Input

#### **Overall views** from the parties we engaged with on whether **ISA 540 (Revised)** achieved its intended purpose:

- **Agreed** that the revisions introduced **more robust requirements and detailed guidance** which have improved the engagement team's understanding of how to audit accounting estimates;
- **Mixed views as to whether the revisions have fostered audit quality**, including:
  - **Improved audit documentation:** Several respondents indicated that the primary impact of the revisions was increased, and higher quality, audit documentation. However, these same respondents felt that despite the improvements in engagement documentation, there were limited enhancements to the performance and quality of the identification and assessment of risks and related response procedures;
  - **Inappropriate application:** Regulators have indicated that the revised standard does foster audit quality however, in many cases, the requirements are not being applied properly, thereby not improving audit quality; and

- **Restatements' root cause:** Regulators continue to see restatements arising from in accounting estimates. However, **it can be difficult to determine whether** the root cause is:
  - The entity's misapplication of the applicable financial reporting requirements related to accounting estimates;
  - The auditor's failure to determine that the accounting estimate is not reasonable in the context of the applicable financial reporting; or
  - The auditor's misapplication of the requirements in ISA 540 (Revised).

**Additional feedback received** from the parties we engaged with on overall impacts of **ISA 540 (Revised)**:

- **Practice risk management issues**, including:
  - **Recoverability of the “extra” work-effort:** Enhanced requirements for auditing estimates require additional information and effort from both auditors and management, increasing time demands that are not always recoverable through audit fees; and
  - **Circumventing the requirements by modifying the auditor's opinion:** Some auditors have responded by defaulting to “except for” qualified opinions that effectively scope out accounting estimates, as a means of avoiding the more demanding aspects of the ISA requirements.

7. Are you aware of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised)?

Yes	X	No	
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7A. [If the response to question 7 is yes] Do you agree that the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) are useful?

4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
	X			

## Input

### Awareness of IAASB's NAG:

- **Practitioners** who audited accounting estimates with a **higher degree of complexity, were aware** of the IAASB's NAG and tools developed to support the implementation of ISA 540 (Revised) and found them useful.
- **Practitioners from smaller firms** who mainly audited accounting estimates with a **lesser degree of complexity**, indicated that they **were not previously aware** of these materials.

**Feedback on IAASB's NAG:** With respect to the **usefulness of the NAG** developed to support the implementation of ISA 540 (Revised), we heard mixed views, including:

- **NAG is primarily focused on auditing higher-risk accounting estimates** (i.e., circumstances described in ISA 540.A21), rather than lower-risk/very-low risk accounting estimates. See the IAASB's:
  - [ISA 540-Expected-Credit-Loss-Illustrative-Examples](#)
  - [ISA 540-Illustrative-Examples-1-and-2-Simple-and-Complex](#)
- The IAASB should **consider**:
  - **Updating and expanding existing guidance:**
    - Correct references to superseded ISAs that were revised after the guidance was published (for example, the IAASB's *ISA 540-Diagram-Linkages-Between-ISAs* guidance contains references to superseded ISA 315), and
    - Provide more examples for simple accounting estimates; and
  - **Communication:**
    - Re-publish updated guidance; and
    - Encourage jurisdictional standard setters to raise awareness about the updated NAG in their ecosystem.

## Section IV: Perceived Benefits from ISA 540 (Revised)

This section seeks to understand stakeholders' perspectives on the perceived benefits or improvements resulting from the implementation of ISA 540 (Revised). The purpose is to gather insights on how the revised standard has, for example, contributed to enhanced audit quality by promoting consistency in the approach to auditing accounting estimates, or contributed to enhanced financial reporting quality by fostering greater interaction among the auditor, management and those charged with governance.

### *Additional Information*

Please note, this section deliberately focuses on **perceived benefits or improvements**. To enhance the richness of input from the survey and to facilitate more effective analysis of responses received, please limit your responses to these aspects. The next section, **Section V**, allows you to share your views on any issues or challenges, or certain specific impacts relating to ISA 540 (Revised).

8. For each perceived benefit, indicate the extent to which you agree that ISA 540 (Revised) has led to benefits or improvements.

Benefits of ISA 540 (Revised)	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) Enhanced exercise of professional skepticism when auditing accounting estimates.		X			
(b) Greater consideration of the skills and competencies of the engagement team, including the need to involve specialists or experts.		X			
(c) Greater attention to understanding management's process for making estimates, including the selection of methods, assumptions and data (and the consistency of selection between periods).		X			
(d) Better or more focused assessments of the risks of material misstatements for accounting estimates.		X			
(e) More focus on understanding and testing controls related to accounting estimates.		X			
(f) Increased auditor attention to disclosures related to accounting estimates, including disclosures about estimation uncertainty.		X			
(g) Enhanced interactions and communications between the auditor and management and those		X			

Benefits of ISA 540 (Revised)	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
charged with governance related to the audit of accounting estimates.					
(h) Enhanced quality of financial reporting related to accounting estimates.		X			

9. Are there any additional benefits or positive outcomes arising from the implementation of ISA 540 (Revised) that you would like to highlight?

Yes	X	No	
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<b>Input</b>	<ul style="list-style-type: none"> <li>• In general, parties we engaged with agreed that each of the perceived <b>benefits or improvements</b> listed in question 8 and that the enhancements to ISA 540 have led to improvements when <b>auditing accounting estimates with a higher degree of complexity</b>.</li> <li>• Along with the benefits in question 8, participants in outreach indicated that ISA 540 (Revised): <ul style="list-style-type: none"> <li>○ <b>Provided greater specificity</b> in the requirements for auditing estimates, better supporting inspection reviews by <b>making departures from the requirements (i.e., deficiencies/inspection findings) more readily identifiable</b> (Source: <i>Regulators</i>).</li> <li>○ <b>Provided greater specificity</b> in the requirements for auditing estimates, which led to <b>increased audit consideration</b>, and <b>greater attention to auditing accounting estimates</b> (Source: <i>Practitioners</i>).</li> <li>○ <b>Enhanced exercise of professional skepticism</b> specifically through the addition of paragraph 33 (the “stand back”) and the requirement in paragraph 34 to consider all evidence obtained, whether corroborative or contradictory, allowing an avenue for (Source: <i>Regulators and Practitioners</i>): <ul style="list-style-type: none"> <li>▪ practitioners to appropriately challenge management’s decisions on the recognition, measurement and disclosures of accounting estimates; and</li> <li>▪ regulators to see, through the engagement documentation, how the auditors have appropriately challenged management’s determinations.</li> </ul> </li> <li>○ <b>Led to greater consistency</b> in how audit firms <b>approach the audit of accounting estimates</b> as a result of updating their</li> </ul> </li> </ul>
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internal methodology for the revised standard, which, as noted above, included greater specificity than before (Source: *Regulators*);

- **Focused inherent risk assessments** with the consideration of **inherent risk factors** in paragraph 16(b) and the related application material (Source: *Practitioners*);
- **Improved quality and usefulness of the entity's disclosures** in the financial statements related to accounting estimates has improved users' understanding of the impact of accounting estimates on the entity's financial position and financial performance (Source: *Regulators*); and
- **Reinforced linkage in ISA 540 to key audit matters** (see ISA 540.A114), has led to improved communication in the auditor's report about the estimation uncertainty associated with accounting estimates that required significant auditor attention, and they how were addressed in the audit (ISA 701.14) (Source: *Regulators*).

## Section V: Potential Issues or Challenges Relating to ISA 540 (Revised)

### A. Scalability and Proportionality

The IAASB acknowledged the importance of a scalable standard for all types of accounting estimates, from those that are relatively simple to those that are complex, and included several elements to address this, including:

- Introducing and emphasizing the concept of a spectrum of inherent risk (paragraph 4). Under the spectrum of inherent risk concept, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale.
- Specific paragraphs in the application material that demonstrate how ISA 540 (Revised) is scalable in the risk assessment (paragraphs A20-A22) and the responses to the assessed risks of material misstatement (paragraph A84).
- Emphasizing in a requirement that the auditor's further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement at the assertion level and that the auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be (paragraph 18).

10. ISA 540 (Revised) was designed to be capable of being applied to all accounting estimates, and for the nature, timing and extent of the risk assessment and further audit procedures to be varied in relation to the estimation uncertainty and the assessment of the risks of material misstatement. Indicate the extent to which you have experienced or observed or are aware of any issues or challenges related to scalability and proportionality.

4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
	X			

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

<b>Input</b>	<p>In performing our Canadian activities to inform our AASB response to the IAASB's public consultation survey (the "survey"), we received differing perspectives, most notably between practitioners auditing higher risk estimates/entities with more sophisticated operations/etc. and those that encounter lower risk accounting estimates/entities with unsophisticated operations/etc. Scalability issues were most often raised by the latter.</p> <p><b><u>Issues</u></b></p> <p><b>1. Scalability and proportionality of the risk assessment requirements:</b></p> <ul style="list-style-type: none"> <li>• Difficult to determine <b>the nature, timing and extent of risk assessment procedures</b>, work effort, and documentation, that is</li> </ul>
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required for **lower/very low risk accounting estimates** (i.e., circumstances described in ISA 540.A20) when ambiguous terms are used in requirements or application material:

- “to the extent necessary to obtain audit evidence as a basis for risk assessment” (ISA 540.13) or
- “may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances” (ISA 540.A20)
- Unclear as to what to do when **management’s process for making accounting estimates**, including control activities within that process, **is missing or not sufficiently robust** (ISA 540.13(e)-(j)).

**Source:** (SME Practitioners).

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

- **Inconsistent terminology used to refer to “simpler” accounting estimates throughout ISA 540:** The use of different terminology throughout the application material may be leading to confusion as to **when/how** “the nature, timing and extent of the risk assessment and further audit procedures required by this CAS will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement” (ISA 540.3), **for a ‘lower risk/lower inherent risk’ accounting estimate**. Different terminology includes:
  - Estimation uncertainty may be very low (para. 3)
  - The accounting estimates may be subject to, or affected by, estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree (para. A20)
  - Simple ‘accounting estimate’ (para. A63/A68)
  - (Accounting estimates where) inherent risk is closer to the lower end of the spectrum of inherent risk (para. A69)
- **The scalability** of work-effort found in risk assessment procedures of “to the extent necessary...” (ISA 540.13) is **missing from the risk response procedures** (ISA 540.18).
- **Scalability is missing** with respect to **what matters to ‘communicate with TCWG, Management, or Other Relevant Parties’** (ISA 540.38, A146) regarding “simpler” accounting estimates.

**Source:** (SME Practitioners).

12. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
X			

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

Input	Suggestions
	<p><b>1. Scalability and proportionality of the risk assessment requirements [Issue raised in response to question 11]:</b></p> <ul style="list-style-type: none"> <li>• <b>Root cause:</b> Misapplication of the ISA</li> <li>• <b>Suggest:</b> Although the standard <b>does incorporate scalability</b> through the language in ISA 540.13, A7, A20-A22, <b>we suggest the IAASB consider updating the existing Example 1 in <a href="#">ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates   IAASB</a> NAG with more examples of <b>how the more important requirements of ISA 540 can be applied to ‘Simple Accounting Estimates’</b>, including:             <ul style="list-style-type: none"> <li>○ describe the <b>extent</b> of the understanding necessary under ISA 540.13(i); and</li> <li>○ clarify what the impact <b>on risk assessment would be</b> if management has not reviewed and responded to the outcomes of previous accounting estimates under ISA 540.13(j).</li> </ul> </b></li> <li>• Such simple accounting estimates should embody the circumstances described in <b>ISA 540.A20</b>, such as:             <ul style="list-style-type: none"> <li>○ Where the <b>process</b> of making the accounting estimates is <b>less complex</b>;</li> <li>○ <b>Lower and very low risk</b> accounting estimates; and</li> <li>○ <b>Unsophisticated operations</b> (few transactions, events or conditions that give rise to the need for accounting estimates, simple to apply accounting framework and no regulatory factors);</li> <li>○ Accounting estimates are <b>less subject to IR factors</b> and there are <b>fewer identified controls</b> in the control activities component.</li> </ul> </li> <li>• In those circumstances, the <b>guidance should address</b> how the auditor <b>determines whether the accounting estimates are</b></li> </ul>

reasonable or misstated (ISA 540.35-36)) and other overall evaluations on the accounting estimate.

## 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:**
  - Update the AM to use **more consistent terminology with respect to “simpler”** accounting estimates.
  - 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...”
  - 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...”

## B. Professional Skepticism

ISA 540 (Revised) includes several key elements that are designed to enhance the auditor’s application of professional skepticism, including:

- Use of stronger language, such as “challenge,” “question,” and “reconsider” to reinforce the importance of exercising professional skepticism (see, for example, paragraphs A60, A95, and A135 of ISA 540 (Revised)).
- A requirement to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (paragraph 18).
- A requirement to “stand back” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence (paragraphs 33–35).

14. Indicate the extent to which you have experienced or observed or are aware of the following issues or challenges in applying or relating to ISA 540 (Revised) with respect to the auditor *exercising professional skepticism* when auditing accounting estimates and related disclosures.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Appropriately challenging management’s judgments used in making accounting estimates, particularly when they involve complex or subjective inputs.			X		
(b) Identifying and appropriately responding to potential indicators of management bias in the development of accounting estimates.					X
(c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory.			X		

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

Input	Issues
	<ul style="list-style-type: none"> <li>• Difficult to <b>exercise professional skepticism and demonstrate that it was exercised</b> in relation to the accounting estimate (ISA 540.8), when:</li> </ul>

- The accounting estimates are subject to a greater degree of estimation uncertainty, or other inherent risk factors;
- There is greater susceptibility to misstatement due to management bias or other fraud risk factors.
- Difficult to **challenge management regarding the appropriateness of the assumptions used** (ISA 540.9), particularly when using the work of a **management’s expert** (i.e., information from an actuary or a valuation expert)

**Source:** *(Practitioners)*.

16. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
	X		

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

**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.

**C. Risk Assessment Procedures**

ISA 540 (Revised) includes an enhanced risk assessment specifically tailored to accounting estimates that builds on the risk assessment required by ISA 315 (Revised 2019). The inherent risk factors of estimation uncertainty, complexity and subjectivity play a central role in the approach to the identification and assessment of the risks of material misstatement related to accounting estimates, and the responses to those assessed risks. ISA 540 (Revised) also notes that there may be other inherent risk factors, including susceptibility to misstatement due to management bias or fraud.

18. Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *risk assessment procedures and identifying and assessing the risks of material misstatement related to accounting estimates*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) The consideration of inherent risk factors and the interrelationship between them in identifying and assessing risks of material misstatement related to accounting estimates.					X
(b) How the understanding of the entity and its environment, and the entity’s internal control for accounting estimates, relates to the understanding required by ISA 315 (Revised 2019) (i.e., whether it is clear that the requirements in paragraph 13 of ISA 540 (Revised) relate specifically to accounting estimates and build on the broader requirements in ISA 315 (Revised 2019)).		X			
(c) Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation (i.e., the retrospective review of accounting estimates).		X			
(d) Understanding management’s process for making accounting estimates, including how management identifies and selects relevant methods, assumptions and data, and how management understands and addresses estimation uncertainty.		X			
(e) The separate assessments of inherent and control risk relating to an accounting estimate.					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(f) Whether any of the assessed risks of material misstatement are significant risks.					X

18A. [If the response to question 18(b) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Provide additional input, if any, about any issues or challenges regarding the *interaction of ISA 540 (Revised) with ISA 315 (Revised 2019)* in relation to risk assessment procedures and the identification and assessment of risks of material misstatement for accounting estimates.

Input	Issues
	<p><b>1. Risk Assessment - Understanding of the applicable financial reporting framework</b></p> <ul style="list-style-type: none"> <li>• Practitioners <b>insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates</b> (ISA 315.19(b)/ISA 540.13(b)) in order to assess whether the accounting estimates are reasonable in accordance with ISA 540.35; and/or</li> <li>• Management’s <b>insufficient understanding of the requirements of the applicable financial reporting related to the accounting estimates</b>, as part of management’s process in making the accounting estimate (ISA 540.13(e)-(j)).</li> <li>• If one or both parties don’t have this understanding, the auditor cannot meet the core objective of the standard (ISA 540.9 and 11).</li> </ul> <p><b>Source:</b> (<i>Practitioners and regulators</i>).</p> <p><b>2. Risk Assessment - Understanding the entity’s system of internal controls:</b></p> <ul style="list-style-type: none"> <li>• Obtaining an <b>insufficient understanding of the entity’s system of internal control relevant to accounting estimates</b> (ISA 540.13(e)-(j)), which includes an insufficient understanding of: <ul style="list-style-type: none"> <li>○ how information relating to accounting estimates and related disclosures flows through the entity’s information systems (ISA 540.13(h(i)),</li> <li>○ management’s process for making accounting estimates (ISA 540.13(h(ii)), and</li> <li>○ the control activities over that process (ISA 540.13(i)).</li> </ul> </li> </ul>

- Especially challenging in circumstances where **the auditor is not planning to test and rely on the operating effectiveness of controls**, and their planned further audit procedures to respond to risks in the accounting estimates are to “**develop an auditors point estimate or range**” (ISA 540.18(c)) instead of testing management’s estimate (ISA 540.18(b)).
  - Practitioners may be **unclear on the impact** on risk assessment and the design of further audit procedures **if they identify control deficiencies** in their evaluation of the component of internal control.
- Source:** (*Practitioners and Regulators*).

18B. [If the response to question 18(c) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you agree with the following statements with respect to reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation.

Statements Related to Retrospective Review	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) The retrospective review process is difficult due to changes in economic conditions or assumptions that make prior-period estimates less comparable.					X
(b) The time and effort required to perform a retrospective review outweigh the perceived benefits for audit risk assessment.		X			

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

Input	<u>Issue</u>
	<p><b>3. Risk Assessment - Retrospective review</b></p> <ul style="list-style-type: none"> <li>• Uncertainty around <b>how to perform a retrospective review through the subsequent re-estimation of previous accounting estimates</b> (ISA 540.14) in situations where the outcome of a previous accounting estimate is not yet resolved through transfer or realization of the asset or liability <b>in the current period</b> (ISA 540.A55). In this case, there is uncertainty about what constitutes an appropriate basis for performing, or concluding on, the retrospective review.</li> </ul>

- Especially challenging to determine nature and extent this review when:
  - Performing the risk assessment **early in the audit process** before the outcome of the estimate is known; or
  - The **outcome of an accounting estimate is resolved over a longer period** (such as pension liabilities, asset retirement obligations, than can cover multiple decades (see ISA 540.A56)) and re-estimation is complex.
- Notably, **SME practitioners without national methodologies or templates found it challenging to perform this procedure at an appropriate level of detail** in light of the nature of the accounting estimates.

**Source:** (*Practitioners*).

20. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
<b>X</b>			

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

**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:**
  - Misapplication of the ISA
  - 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**
  - **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.**

**OR**

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

- 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:
  - 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:**

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

**Suggest:**

- **[Option A] Expand guidance:**

- **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.
- **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;

**OR**

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

- 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."

**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:**

- 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:**

- Performing risk assessment procedures before the outcome of the estimate is known; and
- The outcome of an accounting estimate is resolved over a longer period.

#### D. Responses to the Assessed Risks of Material Misstatement and Overall Evaluation

The auditor's responses to assessed risks of material misstatement for accounting estimates include one or more of the following testing strategies:

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

For these testing strategies, the IAASB introduced objective-based requirements, focused on methods (including models), assumptions and data. The objective-based requirements allow scalability in the nature, timing and extent of the procedures performed, recognizing that the higher the assessed risks of material misstatement, the more persuasive the audit evidence needs to be.

ISA 540 (Revised) requires the auditor to determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. In making this determination, the auditor is required to evaluate the effect of uncorrected misstatements on the financial statements. ISA 540 (Revised) provides guidance for that evaluation, consistent with ISA 450, *Evaluation of Misstatements Identified During the Audit*.

22. Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *responding to the assessed risks of material misstatement*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
<b>Responses to the Assessed Risks of Material Misstatement</b>					
(a) Determining the most appropriate response(s) to the assessed risks of material misstatement at the assertion level from among the testing approaches in paragraph 18 of ISA 540 (Revised).		X			
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.					X
(c) Appropriately applying the testing approach of obtaining audit evidence about events occurring up to the date of the auditor's report, either alone or with another testing approach(es).					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(d) Testing how management made the accounting estimate.		X			
(e) Developing an auditor’s point estimate or range.		X			
<b>Overall Evaluation</b>					
(f) Determining whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.		X			
(g) Evaluating identified misstatements related to accounting estimates, including when the audit evidence supports a point estimate that differs from management’s point estimate or a range that does not include management’s point estimate, or when the auditor’s range is wide (in some cases, multiples of materiality for the financial statements as a whole).		X			

22A. [If the response to question 22(d) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Testing management’s selection of the method, significant assumptions, and data used, including whether management’s judgments give rise to indicators of possible management bias.					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(b) Understanding management’s application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used.					X
(c) Whether management has taken appropriate steps to understand and address estimation uncertainty, including the selection of an appropriate point estimate and developing related disclosures about estimation uncertainty.		X			

22B. [If the response to question 22(e) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Determining when it may be appropriate to develop an auditor’s point estimate or range.		X			
(b) Determining that the auditor’s range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.					X
(c) Maintaining objectivity and independence, for example, when material adjustments are made to management’s point estimate based on the auditor’s point estimate developed using a model or assumptions					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
that were different from management’s models and assumptions.					

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

<b>Input</b>	<p><b><u>Issues</u></b></p> <p><b>1. Responses to the assessed risks of material misstatement</b> (a, e from question 22):</p> <p><b>Difficulty determining the most appropriate response to the assessed RMM, particularly when is it appropriate to develop an auditor’s point estimate or range under ISA 540.18(c):</b></p> <ul style="list-style-type: none"> <li>• As currently prescribed in the ISA, the response in 18(c) to develop and auditor’s estimate, is appropriate when: <ul style="list-style-type: none"> <li>○ The auditor determines that <b>management’s response</b> to the auditor’s request to understand or address <b>estimation uncertainty is an insufficient response</b> (para. 27); or</li> <li>○ The <b>other circumstances</b> described in para. A118 exist: <ul style="list-style-type: none"> <li>▪ management's current period process is not expected to be effective</li> <li>▪ deficiencies in the entity's controls within and over management's process for making accounting estimates</li> <li>▪ events or transaction between the period end and the date of the auditor's report have not been properly taken into account; or</li> <li>▪ there are appropriate alternative assumptions or sources of relevant data that can be used in developing an auditor's point estimate or a range.</li> </ul> </li> </ul> </li> <li>• <b>Practitioners have indicated that</b>, when the circumstances described in paragraph A118 are present, they have applied the response in paragraph 18(c) by developing an auditor’s point estimate or range.</li> <li>• <b>Regulators, however, have indicated that</b> in such circumstances the practitioner should instead require management to improve its process for making the accounting estimate, remediate control deficiencies, take into account post-period-end events or</li> </ul>
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transactions, or revise the assumptions used. Once management has done so, the practitioner would then apply the response in paragraph 18(b) and test how management made the accounting estimate.

- **In practice, this creates difficulty in determining when paragraph 18(c) is appropriate**, and whether the circumstances in paragraph A118 are meant to justify the direct development of an auditor's point estimate or range, or instead to prompt further work by management before the auditor applies paragraph 18(b).

**Source:** (*Practitioners and Regulators*).

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

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

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

**Source:** (*Practitioners, including public sector auditors*).

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

- Challenges in performing the auditor's evaluation of **whether, in the case of a fair presentation framework, management has included disclosures beyond those specifically required by the AFRF, that are necessary to achieve the fair presentation of the FS** as a whole (ISA 540.36(a))
  - This evaluation is challenging because, although it is management's responsibility to identify any additional disclosures necessary for users to understand the entity's financial position and financial performance, it is the auditor's

responsibility to evaluate whether the financial statements as a whole achieve fair presentation.

- Feedback from regulators indicates that this challenge is particularly acute for higher-risk accounting estimates that are subject to greater estimation uncertainty and other inherent risk factors. For example, feedback from regulators who review the FS disclosures related to expected credit losses accounted for under IFRS 9 indicated that although the AFRF does not require disclosures around ‘management overlays’<sup>1</sup> that information would be useful to them.
- Some applicable financial reporting frameworks require entities to provide additional disclosures when compliance with the specific requirements of the standards is insufficient to enable users to understand the effect of particular transactions, other events, and conditions on the entity’s financial position and financial performance. One example is IAS 1.17(c).
- ISA 540.A143 provides only limited guidance on the auditor’s evaluation of the disclosures in para. 36(a).

**Source:** *(Regulators and other users).*

24. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
X			

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

**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:**
  - Misapplication of the ISA

<sup>1</sup> Management overlays, often called Post-Model Adjustments (PMAs) are manual, expert-driven adjustments made to the final output of an Expected Credit Loss (ECL) model. They are used when a company’s automated statistical models cannot accurately reflect specific risks or rapidly changing economic condition. See [KPMG’s Navigating IFRS 9 PMAs](#).

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

**OR**

- **[Option B] [KEY] Narrow scope amendments to ISA 540 requirements and application material.** Consider the following revisions:
  - **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"
  - **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<sup>2</sup> 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

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<sup>2</sup> 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.
- **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:**

- Misapplication of the ISA
- 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**.
  - [ISA 540 \(Revised\) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB](#) and
  - [ISA 540 \(Revised\) Implementation: Illustrative Examples for Auditing Expected Credit Loss Accounting Estimates | IAASB](#)
  - 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)).

## OR

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

### **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:
  - Adding ISA 540.36 to [ISA 540 \(Revised\) - Requirements Flowchart](#) to remind auditors of its existence; and
  - 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).

### E. Other Matters – Communications, Specialized Skills or Knowledge and Documentation

ISA 540 (Revised) enhanced the requirements for other aspects of auditing accounting estimates and related disclosures, such as:

- Communication with TCWG, management or other relevant parties;
- Specialized skills or knowledge, including using the work of an auditor’s expert; and
- Documentation.

26. Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *communication, specialized skills or knowledge, including using the work of an auditor’s expert, and documentation*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
<b>Communications</b>					
(a) Determining the matters, if any, to communicate related to accounting estimates, (including about significant qualitative aspects of the entity’s accounting practices and significant deficiencies in internal control).			X		
<b>Specialized Skills or Knowledge, Including Using the Work of an Auditor’s Expert</b>					
(b) Determining when it is appropriate to involve an auditor’s expert(s) (an internal or external expert) and using the work of an auditor’s expert(s) in auditing an accounting estimate(s).		X			
<b>Documentation</b>					
(c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (Revised).					X

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

<b>Input</b>	<p><b><u>Issues</u></b></p> <p><b>1. Communications with Those Charged with Governance, Mgmt., or Other Relevant parties</b> (a in question 26):</p> <ul style="list-style-type: none"> <li>• See Q11 for an issue regarding scalability of the requirement in ISA 540 (Revised).38</li> <li>• No additional issues or challenges were raised regarding the requirement in para. 38 to communicate with those charged with governance.</li> </ul> <p><b>2. Use of experts</b> (b in question 26): In circumstances where matters described in <b>ISA 540.A51 exist, there is an inappropriate determination of whether the engagement team requires specialized skills or knowledge to:</b></p> <ul style="list-style-type: none"> <li>○ perform the <b>risk assessment procedures</b>;</li> <li>○ <b>identify and assess the risks</b> of material misstatement;</li> <li>○ <b>design and perform audit procedures</b> to respond to those risks, or</li> <li>○ <b>evaluate</b> the audit evidence obtained (ISA 540. 15);</li> <li>• Inadequate <b>documentation of the auditor's judgments</b> in determining whether specialized skills or knowledge are required when the selection and application of methods, significant assumptions, or the data is affected by <b>complexity to a higher degree</b> (ISA 540.A151)</li> </ul>
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28. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
	X		

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

<b>Input</b>	<p><b><u>Suggestions</u></b></p> <p><b>1. Communications with Those Charged with Governance, Mgmt., or Other Relevant parties [Issue raised in response to question 27]:</b></p> <ul style="list-style-type: none"> <li>• See Q13 for the suggestions regarding scalability of the requirement in ISA 540 (Revised).38.</li> </ul>
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**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:
  - 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.
  - 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.