

ISA 540 (Revised) Post-Implementation Survey

Response ID:370 Data

3. Section II: About the Respondent

1. 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) : CPA Australia

Name(s) of contact(s) for this submission : Tiffany Tan

Job title or role : Audit and Assurance Lead

E-mail address(es) of contact(s) : Tiffany.Tan@cpaaustralia.com.au

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

Professional Accountancy or Professional Organization (PAOs)

Specify the type of accounting firm you represent:

Please specify:

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

Asia Pacific

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

Yes

4A. Please provide further information about your outreach activities, including:

The manner in which the outreach was undertaken. : Discussions were held with regulators to understand their observations from audit file reviews, as well as with standard setters and the broader profession through roundtables. Additional targeted outreach was also undertaken with selected CPA Australia members. Insights were further supplemented through discussions with CPA Australia's Best Practice team, based on their observations from reviewing members' audit files.

The nature and number (or estimate thereof) of stakeholders with whom you engaged. : The outreach was conducted through a combination of: • bilateral discussions with regulators and standard setters • roundtable discussions with the broader profession • targeted engagement with selected CPA Australia members • internal consultations with CPA Australia's Best Practice team

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).

Our response is informed primarily by outreach and observations from the auditor perspective, particularly on the practical application of ISA 540 (Revised) across different firm and client contexts.

Overall, we consider the survey comprehensive, but in some areas quite long and difficult to navigate given the complexity of the subject matter. Some questions also appear more binary than the underlying issues warrant, which can make it difficult to assign rating and reflect nuanced views accurately.

We also note that our response only partly addresses the impact of increasingly sophisticated valuation and estimation techniques, including "black box" models. This is a fast-evolving area that raises important questions about what constitutes sufficient appropriate audit evidence, and how that evidence can be documented when the underlying model logic is not fully transparent. In our view, this is an area where further guidance may be needed.

Finally, our outreach has focused mainly on auditors. As a result, we are less able to conclude whether ISA 540 (Revised) has materially improved financial reporting outcomes or the usefulness of related disclosures for users of financial statements.

4. Section III: Overall Questions

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.

Overall, we consider that ISA 540 (Revised) has largely achieved its intended purpose and the IAASB's objectives in developing the revised standard.

The revised standard has sharpened the focus on accounting estimates and related disclosures, promoted a more structured and risk-based audit approach, and reinforced the importance of professional scepticism in areas involving complexity, subjectivity and estimation uncertainty.

It has also improved auditor attention to management's methods, assumptions and data, and strengthened the overall evaluation of whether estimates and related disclosures are reasonable under the applicable financial reporting framework.

We have heard practical challenges remain, particularly in achieving consistent and proportionate application across different firms and engagements. However, in our view, these are mainly implementation and scalability issues rather than problems with the core principles or objectives of the standard.

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

Yes

7A. Do you agree that the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) are useful?

3 – Agree

Comments: We agree that the non-authoritative guidance and support tools are useful. Materials such as flowcharts, diagrams and illustrative examples help explain the structure and intent of the standard and support more consistent application in practice. However, outreach suggests that awareness and use of these materials is uneven, particularly among smaller and medium-sized practices and firms without dedicated technical resources. For many practitioners, the main issue is not usefulness, but visibility and accessibility. To improve impact, the IAASB could: • centralise all implementation resources in one easily accessible location, similar approach to the IASB or IFRS Foundation where all the non-authoritative guidance and support tools are hosted in one central webpage [<https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standards/>]; and • re-promote these implementation material These steps would improve both accessibility and practical usefulness.

5. Section IV: Perceived Benefits from 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.

| | 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 charged with governance related to the audit of accounting estimates. | | X | | | |
| (h) Enhanced quality of financial reporting related to accounting estimates. | | | | | X |

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

| | 4 – Strongly Agree | 3 – Agree | 2 – Disagree | 1 – Strongly Disagree | 0 – No Response |
|--|--------------------------|--------------|-----------------|-----------------------------|--------------------|
| (a) 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). | | | | | |
| (b) More focus on understanding and testing controls related to accounting estimates. | | | | | |
| (c) Increased auditor attention to disclosures related to accounting estimates, including disclosures about estimation uncertainty. | | | | | |
| (d) Enhanced interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates. | | | | | |
| (e) Enhanced quality of financial reporting related to accounting estimates. | | | | | |

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

| | 4 – Strongly Agree | 3 – Agree | 2 – Disagree | 1 – Strongly Disagree | 0 – No Response |
|---|--------------------------|--------------|-----------------|-----------------------------|--------------------|
| (a) Enhanced interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates. | | | | | |
| (b) Enhanced quality of financial reporting related to accounting estimates. | | | | | |

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

Yes

Please specify:

ISA 540 (Revised) appears to have encouraged a more structured and disciplined approach to auditing accounting estimates. In particular, it has strengthened the link between risk assessment, audit response and overall evaluation, and has supported more robust challenge of management's methods, assumptions and data, including contradictory evidence.

For members working with small and medium entities (SMEs), the revised standard has increased awareness of controls relevant to accounting estimates. In practice, however, testing the operating effectiveness of those controls is often limited because many SME clients do not have sufficiently formalised controls.

The revised standard has also increased attention to related disclosures and reinforced communication with those charged with governance on significant judgmental areas.

For some entities, it also appears to have encouraged more disciplined and supportable estimation processes by management, especially in areas involving significant judgment or complex modelling.

The revised standard also appears to have encouraged more disciplined and supportable estimation processes by management, particularly in areas involving significant judgment or estimation uncertainty.

That said, it is still difficult to conclude definitively whether these improvements have consistently translated into higher-quality financial reporting or more decision-useful disclosures for users, particularly as accounting estimates and valuations remain an enduring area of regulatory focus in Australia [<https://www.asic.gov.au/regulatory-resources/financial-reporting-and-audit/financial-reporting-and-audit-focus-areas/>]and New Zealand [<https://www.fma.govt.nz/news/all-releases/media-releases/importance-of-high-quality-financial-reporting/>].

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

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 are aware of any issues or challenges related to scalability and proportionality.

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 observed or are aware of any issues or challenges related to scalability and proportionality.

3 – Moderate Issues or Challenges

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

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

A key challenge is that, although ISA 540 (Revised) is intended to be scalable, this is not always clear in practice.

For simpler estimates, especially in SME environments, auditors can find it difficult to determine what level of work and documentation is proportionate. This is particularly challenging where management processes and controls are informal.

In practice, difficulty often arises in calibrating:

- the depth of understanding of management's process;
- the extent of control-related work;
- the linkage between inherent risk factors and audit response; and
- the extent of overall evaluation and documentation required.

By contrast, complex estimates can sometimes be easier to calibrate because the need for extensive work is more obvious.

In our view, this is mainly an implementation issue rather than a flaw in the standard's principles. Additional guidance and practical examples showing proportionate application and documentation for simpler estimates would be helpful.

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

Yes

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)?

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.

7. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

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

| | 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. | | | | | |
| (b) Identifying and appropriately responding to potential indicators of management bias in the development of accounting estimates. | | | | | |
| (c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory. | | | | | |

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

| | 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 related to exercising professional skepticism.

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

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

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

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

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

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

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?

No

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)?

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.

8. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

18. Indicate the extent to which you have experienced 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*.

| | 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. | | | | | |
| (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)). | | | | | |
| (c) Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation (i.e., the retrospective review of accounting estimates). | | | | | |
| (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. | | | | | |
| (e) The separate assessments of inherent and control risk relating to an accounting estimate. | | | | | |
| (f) Whether any of the assessed risks of material misstatement are significant risks. | | | | | |

18. Indicate the extent to which you have 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*.

| | 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 | | |
| (f) Whether any of the assessed risks of material misstatement are significant risks. | | | X | | |

18A. Provide additional input, if any, about any issues or challenges regarding the interaction of ISA 540 (Revised) with ISA 315 (Revised 2019) in relation to risk assessment procedures and the identification and assessment of risks of material misstatement for accounting estimates.

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

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

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

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

18B. 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.

Strongly agree

| | 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 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.

19. Briefly describe these or any other issues or challenges you 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.

Similar to the "stand-back" requirement, practitioners generally find retrospective review highly beneficial in most circumstances because it can help identify indicators of management bias and weaknesses in management's estimation process.

However, the challenge arises in determining what level of work effort and documentation is proportionate for simple estimates or estimates with low estimation uncertainty. In these cases, practitioners can find it difficult to judge how much retrospective review is enough.

A further challenge arises where actual outcomes are inherently uncertain and are driven by unforeseeable market movements or other external factors, rather than management judgment. In those cases, retrospective review may provide limited incremental insight, and it does not necessarily enhance understanding of management's estimation process.

More broadly, the usefulness and efficiency of retrospective review are highly contextual and depend on the nature of the estimate, the audit context, and the reasons for changes between the estimate and the eventual outcome. Therefore, we found the framing of question 18B appears somewhat binary for what is, in reality, a highly contextual matter.

Another challenge is understanding and documenting management's process, particularly where the auditor decides that developing an independent expectation or range is more appropriate than testing management's method in depth.

For complex estimates, the main difficulty is understanding models, specialist assumptions, large or external data sets, and the interaction of complexity, subjectivity and estimation uncertainty. This is particularly challenging where "black box" or less transparent models are used.

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

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

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

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)?

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).

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.

9. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

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

| | 4 – Significant Issues or Challenges | 3 – Moderate Issues or Challenges | 2 – Minor Issues or Challenges | 1 – No Issues or Challenges | 0 – No Response |
|---|---|--|--------------------------------------|-----------------------------------|--------------------|
| Responses to the Assessed Risks of Material Misstatement | | | | | |
| (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). | | | | | |
| (b) Determining whether to test the operating effectiveness of controls related to an accounting estimate. | | | | | |
| (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). | | | | | |
| (d) Testing how management made the accounting estimate. | | | | | |
| (e) Developing an auditor's point estimate or range. | | | | | |
| Overall Evaluation | | | | | |
| (f) Determining whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. | | | | | |
| (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). | | | | | |

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

| | 4 – Significant Issues or Challenges | 3 – Moderate Issues or Challenges | 2 – Minor Issues or Challenges | 1 – No Issues or Challenges | 0 – No Response |
|---|--------------------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------|
| Responses to the Assessed Risks of Material Misstatement | | | | | |
| (a) Determining the most appropriate response(s) to the assessed risks of material misstatement at the assertion | | | 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 | | |
| (d) Testing how management made the accounting estimate. | | X | | | |
| (e) Developing an auditor's point estimate or range. | | X | | | |
| Overall Evaluation | | | | | |
| (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. Indicate the extent to which you have experienced the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

| | 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. | | | | | |
| (b) Understanding management's application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used. | | | | | |
| (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. | | | | | |

22A. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

| | 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 | | | |
| (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. Indicate the extent to which you have experienced the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

| | 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. | | | | | |
| (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. | | | | | |
| (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 that were different from management's models and assumptions. | | | | | |

22B. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

| | 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 that were different from management's models and assumptions. | | | X | | |

23. Briefly describe these or any other issues or challenges you encountered 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.

23. Briefly describe these or any other issues or challenges you 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.

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

This is especially relevant for complex fair value and other valuation-based estimates, where auditors may have limited visibility into model design and may need significant work to understand and test management's methodology.

Challenges also arise where the auditor develops an independent point estimate or range. Practitioners may find it difficult to determine when this is the most appropriate response, how narrow the range should be, and how to evaluate differences between the auditor's estimate and management's estimate in a practical and supportable way.

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

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

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?

No

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)?

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.

10. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

26. Indicate the extent to which you have experienced 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.

| | 4 – Significant Issues or Challenges | 3 – Moderate Issues or Challenges | 2 – Minor Issues or Challenges | 1 – No Issues or Challenges | 0 – No Response |
|--|--------------------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------|
| Communication (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). | | | | | |
| Specialized Skills or Knowledge, Including Using the Work of an Auditor's Expert (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). | | | | | |
| Documentation (c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (Revised). | | | | | |

26. Indicate the extent to which you have 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.

| | 4 – Significant Issues or Challenges | 3 – Moderate Issues or Challenges | 2 – Minor Issues or Challenges | 1 – No Issues or Challenges | 0 – No Response |
|--|--------------------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------|
| Communication (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 | | |
| Specialized Skills or Knowledge, Including Using the Work of an Auditor's Expert (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 | | |
| Documentation (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.

In our view, the main challenge in this area relates to documentation rather than communications or the use of experts. For documentation, the key difficulty is determining what is proportionate under paragraph 39, especially for simpler or lower-risk estimates and in SME environments where management processes and controls may be informal. Practitioners can find it difficult to document clearly the connection between the risk assessment, the audit response and the overall evaluation without creating documentation that feels disproportionate to the nature of the estimate. This can contribute to a perception that the documentation expectations operate too broadly across all estimates, regardless of complexity, and can drive unnecessary work effort in lower-risk areas. By contrast, communications do not appear to be a major source of difficulty. ISA 540 (Revised) has generally supported more structured communication with management and, where relevant, those charged with governance.

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

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?

Difficult to Determine

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)?

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.

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.

11. Section V: Impacts of ISA 540 (Revised)

10. Since the effective date of ISA 540 (Revised), indicate the extent to which you agree with the following statements about specific impacts relating to the auditing of accounting estimates as part of the audit engagement.

| | 4 – Strongly Agree | 3 – Agree | 2 – Disagree | 1 – Strongly Disagree | 0 – No Response |
|---|--------------------|-----------|--------------|-----------------------|-----------------|
| (a) There has been an increase in dialogue with the auditor and requests for additional documentation and evidence to support how we develop accounting estimates and related disclosures. | | | | | |
| (b) The interactions with the auditor about our process for making accounting estimates has led us to further challenge our approach to the selection of the method, assumptions and data used. | | | | | |
| (c) The interactions with the auditor about our process for making accounting estimates has led to further consideration about the disclosures related to accounting estimates, including disclosures about estimation uncertainty. | | | | | |
| (d) The interactions with the auditor related to accounting estimates has influenced our decisions about the need to involve a management's expert. | | | | | |

11. Describe your views about these or any other impacts you have observed or become aware of, related to the application of ISA 540 (Revised) by auditors.

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)?

12. Section V: Impacts of ISA 540 (Revised)

10. From your interactions with auditors or those charged with governance of entities, or from your analysis of entities' financial reporting, indicate the extent to which you agree with the following statements about specific impacts relating to the auditing of accounting estimates as part of the audit engagement.

| | 4 – Strongly Agree | 3 – Agree | 2 – Disagree | 1 – Strongly Disagree | 0 – No Response |
|---|--------------------------|--------------|-----------------|-----------------------------|--------------------|
| (a) The quality of the entity's disclosures in the financial statements related to accounting estimates has improved. | | | | | |
| (b) The communications in the auditor's report (e.g., Key Audit Matters related to accounting estimates) have improved in terms of describing the matter(s) and how the auditor has addressed the matter(s) in the audit. | | | | | |
| (c) Auditors are devoting appropriate attention to the entity's accounting estimates as part of the financial statement audit. | | | | | |
| (d) There is greater consistency in how audit firms approach the audit of accounting estimates since ISA 540 (Revised) has been effective. | | | | | |

11. Describe your views about these or any other impacts you have observed or become aware of, related to the application of ISA 540 (Revised) by auditors.

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)?