ISA 540 (Revised) Post-Implementation Survey

Response ID:345 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) : Ernst & Young Global Limited
Name(s) of contact(s) for this submission : Amy King
Job title or role : Global Assurance Vice Chair – Professional Practice
E-mail address(es) of contact(s) : Amy.King@eyg.ey.com

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

Accounting Firm

Specify the type of accounting firm you represent:

Global accounting firm

Please specify:

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

Global

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

No

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

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).

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 believe ISA 540 (Revised) has achieved its intended purpose and the IAASB's intended objectives. While implementation can be challenging, this is not unexpected given the inherent complexity in auditing accounting estimates.

We understand the IAASB will be commencing a post-implementation review of ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, later this year. Because of the effects of ISA 315 (Revised 2019) on risk assessment for accounting estimates, the input from that post-implementation review is important for the IAASB to consider before concluding on its post implementation review of ISA 540 (Revised).

Also, we acknowledge that the IAASB is currently revising ISA 330, The Auditor's Responses to Assessed Risks, ISA 500, Audit Evidence, and ISA 520, Analytical Procedures. These standards provide important context for ISA 540 (Revised) and the audit of accounting estimates. In particular, the revisions to ISA 330 and ISA 500 are highly relevant to how auditors evaluate the relevance and reliability of internal and external information used by management in developing an accounting estimate and how auditors design and perform further audit procedures to respond to assessed risks of material misstatement related to accounting estimates. Accordingly, we encourage the IAASB to explicitly consider the interoperability of Proposed Revised ISA

330/ISA 500/ISA 520 with ISA 540 (Revised), including the findings from this post implementation review, to ensure the requirements and application material operate cohesively in practice.

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: The non-authoritative implementation materials issued to support ISA 540 (Revised)—in particular, the flowcharts and illustrative examples—are helpful in clarifying expectations for applying the standard. For complex estimates, we found the examples (i.e., expected credit losses and provision on property, plant and equipment impairment) to be contextually grounded and relatable, demonstrating how the requirements may be applied in practice. For the example that addresses a simple accounting estimate (i.e., provision on inventory impairment), we believe this example demonstrates the scalability challenges with the standard (e.g., the example does not address all requirements of the standard and is 14 pages in length). Refer to further comments in our response in Section V (A. Scalability and Proportionality).

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:

The guidance in ISA 500 on using external information sources, introduced alongside ISA 540 (Revised), has been helpful in evaluating whether the assumptions and data used in accounting estimates are relevant and reliable.

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.

3 – Moderate Issues or Challenges

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.

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

ISA 540 (Revised) appropriately requires that audit procedures be scalable in accordance with the identified and assessed risks of material misstatement for an accounting estimate, particularly the level of estimation uncertainty. Nevertheless, its detailed requirements are primarily designed for more complex accounting estimates, which can complicate their application to simpler accounting estimates with low estimation uncertainty, complexity and subjectivity (i.e., accounting estimates assessed at the low end of the spectrum of inherent risk). It is challenging for auditors to prepare documentation that is both proportional to the assessed risks associated with the accounting estimate and sufficient to demonstrate compliance with the requirements of the standard. Consequently, auditors may sometimes conduct more extensive procedures and compile excessive documentation for straightforward accounting estimates, which goes against the standard's objective of promoting a proportionate audit effort.

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

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

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?

Difficult to Determine

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)?

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

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

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.		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			

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.					
(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.					

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

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

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

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)?

It would be helpful for the IAASB to develop non-authoritative guidance that includes illustrative examples demonstrating how auditors challenge management's methods, data, and assumptions, as well as processes for identifying and evaluating contradictory evidence. Additionally, such guidance should illustrate audit documentation practices that demonstrate the exercise of professional skepticism by auditors. This material would serve as a valuable reference point for auditors when assessing both the adequacy and quality of their documentation, while ensuring that documentation remains flexible relative to the assessed risks of material misstatement for accounting estimates, consistent with the IAASB's objective for the standard to be scalable and proportionately applied.

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.			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		

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.					
(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.					

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.

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.*

	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.

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

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

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

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

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.

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?

Difficult to Determine

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)?

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

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

We are uncertain, however, whether non-authoritative material alone would be sufficient to address the scalability challenge noted with regard to simple or low risk estimates. Alternatively, it may be appropriate to consider a targeted amendment to the requirement, mandating performance only in circumstances when the retrospective review is expected to provide benefits that justify the time and effort involved.
With regard to entities' use of AI in processes to make accounting estimates, we believe this is an important topic for the newly established Technology Expert Panel to consider and potentially address through non-authoritative material.

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

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).			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			

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					
(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).					

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.		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			

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.					
(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.					

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.		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			

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.					
(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.					

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.

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

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

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

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.

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)?

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

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

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).			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			

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).					
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).					

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.

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

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

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?

No

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)?

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

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

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)?