ISA 540 (Revised) Post-Implementation Survey

This document includes survey questions for:

- **Accounting firms**
- **Jurisdictional and Other Standard Setters**
- **Professional Accountancy Organizations (PAOs)**
- **Regulators and Audit and Assurance Oversight Bodies**
- **Academia**
- **Others**

!! Not for Submission !!

This document includes the *Word* version of the International Auditing and Assurance Standards Board's (IAASB) public consultation survey for the post-implementation review of International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

It aims to facilitate *stakeholders' internal outreach or information-gathering activities, and drafting and review of responses prior to completing the online survey.*

Please provide your input by using the online survey.

About this Survey

This public consultation survey includes a series of questions to gather input on the impact of ISA 540 (Revised) as part of the IAASB's post-implementation review (PIR) of the standard. The survey was developed with a broad range of stakeholders in mind, including auditors and audit firms, jurisdictional standard setters, professional accountancy or professional organizations, regulators or audit and assurance oversight bodies, preparers or issuers, those charged with governance, investors and other users of financial statements, and academics. The survey questions have been tailored to reflect the perspectives and experiences of different stakeholder groups, ensuring that each respondent is asked questions relevant to their role and interaction with ISA 540 (Revised) or its outputs.

Request and Related Information

Respondents are asked to complete the online public consultation survey for the PIR of ISA 540 (Revised) by following the link provided on the IAASB website. Access the ISA 540 Post-Implementation Review Survey web page here. **Responses to the public consultation survey are requested by June 15, 2026.**

We encourage stakeholders to further distribute the link to the online survey to their members or constituents, as applicable, within their jurisdictions or organizations, and as part of raising awareness or undertaking further outreach activities with all stakeholders.

You may respond to all questions or only selected questions or matters.

All responses to this survey, whether complete or partial, once submitted will be accepted and considered as input for the work of the IAASB project team in relation to the PIR of ISA 540 (Revised). The responses received will be summarized (in various ways, including, for example by stakeholder group) for purposes of progressing the PIR project, including providing feedback to the IAASB and in developing recommendations for possible further actions.

All responses will be considered a matter of public record and submissions will ultimately be posted on the IAASB website.

Structure of the Survey

The questions for respondents are organized in the following sections.

Section I — Background and Purpose

Section II — About the Respondent

Section III — Overall Questions

Section IV — Perceived Benefits from ISA 540 (Revised)

Section V — Potential Issues or Challenges Related to ISA 540 (Revised)

Section I: Background and Purpose

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

1. In June 2018, the IAASB approved ISA 540 (Revised) as a final standard.[1] ISA 540 (Revised) established more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. The standard was effective for audits of financial statements for periods beginning on or after December 15, 2019.

2. ISA 540 (Revised) addressed the following public interest issues:
   (a) Audit risks were evolving due to a more complex business environment;
   (b) Fostering improved exercise of professional skepticism; and
   (c) Realizing public interest benefits through improved communication and transparency.

3. The IAASB made many enhancements to ISA 540 (Revised) to keep pace with the increasingly complex business environment and changes in financial reporting standards. In addition, recurring audit inspection findings criticized the quality of audit work relating to accounting estimates. Therefore, among other enhancements, ISA 540 (Revised) (paragraphs in the standard are indicated in parentheses):
   (a) Introduced the concept of inherent risk factors, including not only estimation uncertainty but also complexity, subjectivity and others (paragraphs 2, 4, 16).
   (b) Enhanced risk assessment procedures relating to obtaining an understanding of the entity and its environment, including the entity's system of internal control (paragraph 13).
   (c) Emphasized the importance of the auditor's decisions about controls relating to accounting estimates by highlighting relevant requirements in ISA 315 (Revised 2019)[2] and ISA 330[3] (paragraphs 19 and 20).[4]
   (d) Introduced objectives-based work effort requirements directed to methods (including specifically when complex modelling is involved), data and assumptions, to design and perform further audit procedures to respond to assessed risks of material misstatement (paragraphs 7, 19, 22-25).
   (e) Enhanced the "stand-back" requirements, by adding an evaluation of the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence (paragraphs 33-35).
   (f) Enhanced the requirements to obtain audit evidence about the disclosures related to accounting estimates and to determine whether the accounting estimates and related disclosures are

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[1] Note that all references to paragraphs and other content of ISA 540 (Revised) is to the latest version of the standard in the 2025 IAASB Handbook.

[2] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

[3] ISA 330, *The Auditor's Responses to Assessed Risks*

[4] The ISA 315 (Revised 2019) and ISA 540 (Revised) Task Forces coordinated closely to minimize the extent of conforming changes to ISA 540 (Revised) as a result of ISA 315 (Revised 2019). The conforming changes to ISA 540 (Revised) were generally limited to aligning concepts and terminology and did not change the performance requirements in ISA 540 (Revised).

reasonable in the context of the applicable financial reporting framework, or are misstated (paragraphs 26(b), 29(b), 31 and 35).

(g) Included a new requirement to consider matters regarding accounting estimates when communicating with those charged with governance (paragraph 38).

4. The IAASB also issued non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams, and illustrative examples.[5]

Post-Implementation Review

Objectives and Approach

5. In September 2025, the IAASB agreed a plan to perform a post-implementation review (PIR) of ISA 540 (Revised). As indicated in the PIR for ISA 540 (Revised) Plan, the IAASB aims to achieve the following:

   (a) Determine whether ISA 540 (Revised) has achieved its intended purpose by identifying:

      (i) Improvements or benefits from applying the revised standard; and

      (ii) Practical challenges or questions regarding its application, including whether it is being consistently understood and implemented; and

   (b) Determine what actions, if any, are needed by the IAASB to address identified matters.

6. To support these objectives, the IAASB is undertaking a formal public consultation survey to gather information from a broad range of stakeholders. Additional targeted outreach activities will be undertaken as well to complement the understanding of identified implementation challenges or questions and to augment, as applicable, the public consultation process to ensure input is obtained from all stakeholder groups.

Potential Output

7. Based on the insights from the public consultation survey and other targeted outreach activities, the IAASB will determine appropriate next steps, which may include one or a combination of further information-gathering activities, standard-setting activities, or development of non-authoritative materials.

8. The IAASB may also determine that no further action is needed or that there are opportunities to facilitate or support actions by others.

9. A key consideration will be the nature and extent of any perceived challenges, including whether those challenges are due to lack of clarity or insufficiency of the requirements or application material in the standard.

[5] Please refer to the ISA 540 Implementation webpage for more information on the non-authoritative materials.

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)	IRBA
Name(s) of contact(s) for this submission	Liezel du Preez
Job title or role	Senior Professional Manager Standards
E-mail address(es) of contact(s)	ldupreez@irba.co.za

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

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

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

Africa	x
Asia Pacific	
Europe	
South America	
Middle East	
North America	

Global	

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

Yes	x	No	

4A. [If the response to question 4 is yes] Please provide further information about your outreach activities, including:

The manner in which the outreach was undertaken.	One virtual focus group discussion. A draft survey response was circulated for preparation purposes.
The nature and number (or estimate thereof) of stakeholders with whom you engaged.	4 representatives from network audit firms 1 representative from an audit quality service provider 1 representative from SAICA (PAO). 1 representative of a regulator (the Prudential Authority).

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

Input	As IRBA serves as both the Jurisdictional Standard Setter and the Regulator, outreach was conducted across all relevant stakeholder groups. This inclusive approach and conversations supported a single submission.

Section III: Overall Questions

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

In revising ISA 540, the IAASB aimed to:

(a) Establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. These revisions would also emphasize the importance of the appropriate application of professional skepticism when auditing accounting estimates.

(b) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed.

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

Additional Information

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

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

Input	Overall, we are of the view that ISA 540 (Revised) has largely achieved its intended purpose and represents a significant improvement on the previous standard. It provides a more structured and robust framework for auditing accounting estimates, with greater emphasis on risk assessment, understanding management's process, and designing disciplined audit responses. However, practical challenges remain, particularly in relation to retrospective reviews, the application of professional scepticism, the use of experts, the development of auditor ranges, and the documentation of audit work. In our view, these challenges arise mainly from difficulties in applying the standard consistently in practice, rather than from deficiencies in the requirements themselves. Our inspection observations reinforce this view. Recurring findings indicate that the primary challenge is not the standard, but its consistent application in practice, particularly in operationalising the requirements relating to methods, assumptions and data, and in obtaining and documenting sufficient appropriate audit evidence to support conclusions on accounting estimates. While we support the strong call for non-authoritative guidance and illustrative examples to promote more consistent and effective

	implementation, we have also identified certain areas where narrow-scope amendments to ISA 540 (Revised) may be beneficial.

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

Yes		No	

7A. [If the response to question 7 is yes] Do you agree that the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) are useful?

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

Input	Auditors highlighted [ISA 540 (Revised) Implementation: Illustrative Examples for Auditing Simple and Complex Accounting Estimates | IAASB].

Section IV: Perceived Benefits from ISA 540 (Revised)

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

Additional Information

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

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

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

Benefits of ISA 540 (Revised)	**4 – Strongly Agree**	**3 – Agree**	**2 – Disagree**	**1 – Strongly Disagree**	**0 – No Response**
(h) Enhanced quality of financial reporting related to accounting estimates.		x			

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

Yes	x	No	

Input	<u>**Clearer and more structured audit approach**</u> • The revised standard has introduced a clearer and more structured framework for auditing accounting estimates, reducing ambiguity and promoting consistency in how auditors approach methods, assumptions and data. <u>**Enhanced robustness, more evidence-based challenge of management's assumptions**</u> • The revised standard encourages a deeper understanding of management's estimates and consequently a more robust challenge of management's assumptions, corroborating assumptions with external evidence.

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

A. Scalability and Proportionality

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

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

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

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

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

Input	**<u>Specific Challenges Experienced by Auditors of Smaller Entities:</u>** Management may not adequately calculate estimates in smaller entities, due to inadequate skills in the financial reporting teams. This could indicate a gap in available guidance for preparers of financial statements. We also observed that auditors may experience challenges in obtaining audit evidence for accounting estimates in smaller entity audits, where there may be less formal estimation processes and limited documentation prepared by management to support the reporting of estimates in accordance with the financial reporting standards. In such circumstances, auditors may struggle to obtain sufficient appropriate audit evidence or determine the alternative impact on the audit. For example,

	over relying on discussions with management or, where auditors develop their own point estimate or range due to limitations in management's estimate, struggling to manage the threat to independence by inadvertently assuming management responsibility. The consequential impact may include: 1. Estimates that are not identified (scope and applicability of ISA 540 (Revised); 2. Management imposed limitations; and 3. Threats to independence. These challenges highlight practical scalability and proportionality challenges in applying ISA 540 (Revised). **<u>Scalability for "middle-ground" estimates</u>** In addition to challenges in smaller entity audits, our inspections observed practical difficulty in applying ISA 540 (Revised) to "middle-ground" estimates that are neither simple nor highly complex. In such cases, auditors may struggle to appropriately scale procedures, resulting in either over-auditing or insufficient work effort, particularly where estimation uncertainty is moderate but still requires judgement.

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

Yes	No	Difficult to Determine	No Response
x			

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

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

	prohibitions on assuming management responsibilities, that may be more prevalent in smaller entity audits.

B. Professional Skepticism

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

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

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

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

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

Input	<u>**Practical challenges in consistently applying professional scepticism**</u> The standard has strengthened scepticism in practice.

	While the standard contains clear references to professional scepticism and is generally understood conceptually, challenges persist in consistently operationalising, evidencing and documenting professional scepticism in practice. These challenges appear to stem less from deficiencies in the standard itself and more from practical factors such as: • insufficient understanding of the client's estimates and underlying risks; • limited industry knowledge; • insufficient experience; • weak capture of challenge and evidence on the audit file; • practical constraints including late preparation of estimates by management, complexity, volatility of inputs and audit timeline pressures; and • the application of relevant ethical requirements. Overall, ISA 540 (Revised) provides adequate and sufficiently clear framework for professional scepticism, with the greater need being implementation support rather than further standard-setting. Inspection findings also indicate that professional scepticism is often not evidenced through sufficient challenge of management's assumptions, including limited consideration of contradictory evidence and indicators of management bias. In many instances, auditors appear to rely on management representations or internally generated data without adequate corroboration.

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

Yes	No	Difficult to Determine	No Response
	x		

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

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

C. Risk Assessment Procedures

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

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

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

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

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

Input	Risk assessment is a foundational aspect of the ISA 540 (Revised) approach, and deficiencies in identifying and assessing risks of material misstatement for accounting estimates can have a direct and cascading impact on the nature, timing and extent of audit responses. Key themes included: **Over-generalised Risks:** Continued reliance in practice on over-generalised risk descriptions, with insufficient specificity in identifying which aspects of an estimate (such as assumptions, data inputs or estimation uncertainty) give rise to higher risk. **Incorrect Risk Focus:** In some cases, audit effort may not always be directed towards the most relevant drivers of estimation risk, resulting in misalignment between identified risks and audit procedures. **Misapplication of the Inherent Risk Framework:** Challenges in applying the inherent risk framework in a sufficiently granular and scalable way, including identifying whether risk arises from the estimate as a whole or from specific elements such as assumptions or data. This creates practical difficulty in scaling audit procedures appropriately, as practitioners may understand that lower-risk estimates require a proportionate response but still struggle to translate that into differentiated work effort and documentation in practice. Inspections observed similar challenges in distinguishing between higher inherent risk and significant risk in practice, particularly where multiple inherent risk factors are present. This can result in inconsistent risk assessments and insufficiently tailored audit responses, especially where estimation uncertainty is high but not clearly translated into a significant risk designation.

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

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

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

Input	**<u>Retrospective review: scope, timing and practical application challenges:</u>** Retrospective review remains a significant challenge area in practice. There appears to be uncertainty about how far the auditor is expected to take the procedure, particularly given that the objective is not to re-audit the prior-year estimate but to use hindsight appropriately to inform current-year risk assessment. We also noted that some elements of estimates are easier to review retrospectively than others; for example, actual outcomes such as income and expenses may be observable, whereas assumptions such as discount rates or weighted average cost of capital (WACC) are more difficult to revisit meaningfully after the fact. In addition, retrospective review often sits awkwardly within the audit timeline, as management may only prepare the current estimate at or near year end while audit planning and risk assessment occur much earlier. As a result, teams may perform the retrospective review later during execution, reducing its usefulness as a planning and risk assessment tool.

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

Yes	**No**	**Difficult to Determine**	**No Response**
x			

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

Input	We believe there is scope for narrow-scope amendments to retrospective review requirements and application material within the standard, particularly for more complex estimates and in circumstances where management only prepares the estimate at or near year end. As it relates to over-generalised risks, incorrect risk focus and misapplication of the inherent risk framework, our view is the non-authoritative guidance can assist in providing practical implementation support.

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

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

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

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

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

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

Issues or Challenges in Applying ISA 540 (Revised)	**4 – Significant Issues or Challenges**	**3 – Moderate Issues or Challenges**	**2 – Minor Issues or Challenges**	**1 – No Issues or Challenges**	**0 – No Response**
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		

Issues or Challenges in Applying ISA 540 (Revised)	**4 – Significant Issues or Challenges**	**3 – Moderate Issues or Challenges**	**2 – Minor Issues or Challenges**	**1 – No Issues or Challenges**	**0 – No Response**
(b) 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. [If the response to question 22(d) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.~~

~~Issues or Challenges in Applying ISA 540 (Revised)~~	~~4 – Significant Issues or Challenges~~	~~3 – Moderate Issues or Challenges~~	~~2 – Minor Issues or Challenges~~	~~1 – No Issues or Challenges~~	~~0 – No Response~~
~~(a) Testing management's selection of the method, significant assumptions, and data used, including whether management's judgments give rise to indicators of possible management bias.~~					
~~(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. [If the response to question 22(e) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

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

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
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 or observed related to responding to risks of material misstatement and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.

Input	**Developing an auditor's point estimate or range:** We observed practical challenges in assessing how wide an auditor's range can be while still providing meaningful audit evidence, and in determining the implications when the range is broad (in some cases, multiples of materiality). There is also uncertainty about how such outcomes should influence the auditor's evaluation and disclosures. Our inspections reinforce that where auditors develop independent point estimates or ranges, there is insufficient evaluation of how these relate to management's approach, as well as practical challenges in maintaining objectivity and clearly documenting the basis for conclusions, particularly where ranges are wide. **Volatile or limited available market data:** We also observed that responding to risks becomes particularly challenging where estimates depend on volatile forward-looking information or where there is limited availability of relevant market data. Rapidly changing economic conditions, macroeconomic assumptions and other forward-looking inputs can make it difficult to assess whether management's assumptions remain reasonable throughout the audit and can reduce the usefulness of external benchmarks. These challenges are often more acute in newer or rapidly evolving industries, where market data may be sparse, observable inputs limited and valuation practices still developing. In such circumstances, auditors may face greater difficulty in obtaining sufficiently persuasive corroborative evidence and in determining whether differences in assumptions or outcomes are indicative of estimation uncertainty, reasonable judgement, or possible misstatement. Our inspections confirm that auditors experience difficulty in challenging forward-looking assumptions underpinning forecasts (e.g. growth rates, cash flows, credit losses), particularly where external corroborative evidence is limited or where assumptions are highly judgemental. **Evaluating differences between management's estimate and the auditor's expectation:** We noted challenges in evaluating differences

	between management's estimate and the auditor's expectations, particularly in determining when such differences constitute misstatements. This appears especially complex where different audit approaches are applied within the same estimate (for example, assessing management's estimate for certain components while developing an independent estimate for others), as the implications of differences may vary depending on the approach used. Additional challenges arise where the auditor's range is wide or where management's estimate falls outside the auditor's range, creating uncertainty about whether and how such differences should be reflected as misstatements. In our view, these are practical application challenges in translating audit evidence into consistent evaluation outcomes. **Determining whether audit evidence is sufficient and appropriate to conclude if the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.** A pervasive theme across inspection findings is the failure to sufficiently evaluate the relevance and reliability of data, as well as the appropriateness of methods and assumptions used by management. In many cases, audit procedures do not address all three components holistically, resulting in gaps in audit evidence.

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

Yes	No	Difficult to Determine	No Response
	x		

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

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

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

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

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

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

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Communications					
(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.

Input	**Specialised skills or knowledge, including using the work of an auditor's expert:** We observed significant practical challenges in applying the requirements related to the use of experts. A central theme is the tension between the need to rely on experts in areas requiring specialised knowledge and the auditor's responsibility to evaluate the work performed, particularly where the subject matter is highly technical and outside the auditor's core expertise. In practice, this creates uncertainty about the depth of procedures required to assess the expert's methods, assumptions and conclusions, what constitutes sufficient and appropriate audit evidence, and how to strike an appropriate balance between evaluating the expert's work and, in effect, re-performing it.

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

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

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

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

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

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

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

	assumptions, data and methods, and how contradictory evidence was considered. **Application of ISA 540 (Revised) in group audit contexts:** We noted challenges in applying the requirements of ISA 540 (Revised) at group level where accounting estimates are primarily developed and audited at component level. In such circumstances, there is uncertainty about the extent of work and documentation required by the group engagement team, including how to reflect and evaluate work performed by component auditors and how to incorporate procedures such as retrospective reviews. These challenges appear to arise from the interaction between ISA 540 (Revised) and ISA 600 (Revised) in practice. **Future-fit considerations:** We also note a broader future-fit consideration. In our view, ISA 540 (Revised) needs to remain sufficiently adaptable across the full spectrum of accounting estimates, from relatively simple or more manual estimates to those involving highly complex or advanced models. While the principles-based framework supports this in concept, practical application becomes more challenging as estimates increasingly rely on sophisticated modelling techniques, specialised data and expert inputs. This creates a risk that the standard may be easier to apply to traditional estimation processes than to more advanced estimation environments unless supplemented by clearer implementation support. This is particularly relevant as accounting estimates increasingly rely on complex or less transparent models and external data sources, which place greater demands on auditors to evaluate underlying methodologies and data integrity.

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

Yes	No	Difficult to Determine	No Response
x			

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

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