

ISA 540 (Revised) Post-Implementation Survey

Response ID:414 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) : The Association of Chartered Certified Accountants (ACCA)

Name(s) of contact(s) for this submission : Antonis Diolas

Job title or role : Head of Audit and Assurance

E-mail address(es) of contact(s) : antonis.diolas@accaglobal.com

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

Professional Accountancy or Professional Organization (PAOs)

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?

Yes

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

The manner in which the outreach was undertaken. : Our outreach was primarily undertaken through a discussion with the ACCA's Audit and Assurance Global Forum members. We also participated in virtual discussions with policy and technical groups.

The nature and number (or estimate thereof) of stakeholders with whom you engaged. : The outreach included primarily audit practitioners, together with representatives of other professional accountancy organisations participating in policy and technical groups. We engaged with more than 30 stakeholders.

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.

ISA 540 (Revised) has largely achieved its intended purpose of enhancing audit quality in relation to accounting estimates and related disclosures. Feedback from stakeholders indicates a clear increase in audit focus on accounting estimates, resulting in a more robust understanding by auditors of management's processes, including the methods, assumptions and data used in developing estimates. This increased scrutiny has, in turn, encouraged management to formalise and strengthen its own estimation processes and supporting documentation.

The revised standard has contributed to greater auditor attention to estimation uncertainty, the reasonableness of assumptions and data, and the adequacy of related disclosures. Auditors are increasingly focused on understanding and testing management's processes and controls, as well as evaluating the support for point estimates. The enhanced requirements have also fostered more structured and consistent audit approaches, supported stronger documentation practices, and reinforced the exercise of professional scepticism. Increased interactions between auditors, management and those charged with governance have led to more robust challenge and dialogue regarding accounting estimates and the processes used to develop them.

Stakeholders also noted positive effects on financial reporting quality. Management is placing greater emphasis on developing well-supported estimates, addressing estimation uncertainty, and providing appropriate disclosures. The increased use of management experts in complex areas further reflects the growing sophistication of estimation processes.

At the same time, some areas continue to present practical challenges. These include understanding and testing increasingly complex models, assessing evolving accounting requirements, developing and supporting auditor point estimates or ranges, identifying contradictory audit evidence, and evaluating management's selection of methods, assumptions and data. The growing complexity of financial reporting requirements, including in areas such as expected credit losses and emerging asset classes, has increased the level of judgment required in applying the standard. There has also been greater reliance on auditor specialists to support the audit of complex estimates.

Overall, we consider that ISA 540 (Revised) has strengthened the audit of accounting estimates and promoted a more sceptical, structured and evidence-based approach. While certain implementation challenges remain, particularly in relation to complex estimates and evolving financial reporting requirements, these do not detract from the significant improvements in audit quality and financial reporting practices that have resulted from the implementation of the revised standard.

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

Yes

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

3 – Agree

Comments: We agree that the non-authoritative guidance and support materials developed to support the implementation of ISA 540 (Revised) are useful and have assisted practitioners in understanding and applying the standard more consistently. In particular, practical resources such as implementation guidance, flowcharts and illustrative examples can help auditors navigate complex requirements and support effective application of professional judgement. We suggest that the IAASB could further enhance the value of these materials by improving their visibility and accessibility on the IAASB website. Consideration could be given to modernising website navigation and making implementation resources easier to locate, particularly for stakeholders seeking practical guidance. Stakeholders also expressed support for the development of additional practical examples and flowcharts that are more closely aligned to audits of small and medium-sized entities (SMEs). While many existing examples are helpful, further materials illustrating the application of ISA 540 (Revised) in less complex environments would support scalability and assist smaller firms in implementing the standard in a proportionate and efficient manner.

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			

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:

An additional benefit observed by stakeholders is the positive influence that ISA 540 (Revised) has had on management's approach to developing accounting estimates. Increased auditor challenge and engagement have encouraged management to establish more robust processes for selecting methods, assumptions and data, and to give greater consideration to estimation uncertainty and related disclosures. In many cases, this has resulted in more structured and better-supported estimation processes.

Stakeholders also noted improvements in the quality and consistency of discussions between auditors, management and those charged with governance regarding accounting estimates. The standard has provided a useful framework for supporting internal and external discussions on the appropriateness of estimates and the evidence required to support them.

While stakeholders generally believe that these developments have contributed positively to the quality of financial reporting related to accounting estimates, this assessment is primarily based on anecdotal observations and practical experience. It is difficult to directly attribute improvements in financial reporting quality solely to ISA 540 (Revised), given the influence of other factors, including changes in financial reporting standards, regulatory oversight, and broader developments in audit methodologies and practices.

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

3 – Moderate Issues or Challenges

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

Stakeholders reported challenges in applying the scalability and proportionality principles embedded in ISA 540 (Revised). While there is broad support for the risk-based approach introduced by the standard, questions remain regarding how that approach should be applied in practice across accounting estimates with differing levels of complexity and risk.

A recurring observation was that the effort required to comply with certain aspects of the standard may not always appear proportionate for estimates involving limited complexity and low levels of estimation uncertainty. In these circumstances, auditors may perform extensive procedures to obtain and document an understanding of management's estimation process even where the estimate itself presents a relatively low risk of material misstatement. Some stakeholders questioned whether the resulting audit effort is always commensurate with the underlying risk.

Stakeholders also noted practical challenges in applying the spectrum of inherent risk concept where different inputs and judgments contribute to a single accounting estimate. In some cases, individual elements of an estimate may exhibit varying levels of risk, making it difficult to determine how those differences should influence the overall risk assessment and the design of audit responses. Additional practical guidance in this area would assist auditors in applying the risk assessment framework more consistently.

Feedback further indicated that there is uncertainty regarding the extent to which audit procedures may be adapted for accounting estimates assessed as presenting lower risks of material misstatement. This issue was raised most frequently in the context of smaller entities and less complex estimates, where auditors may be reluctant to scale procedures despite the standard's intention that the nature, timing and extent of work should reflect the circumstances of the engagement.

We therefore suggest that additional implementation support, including practical examples and case studies, could help demonstrate how the requirements of ISA 540 (Revised) may be applied proportionately across a range of estimates. Clarification in this area may also help reduce the risk of audit effort being concentrated on lower-risk estimates at the expense of areas presenting greater risks of material misstatement.

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

Yes

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

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

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

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

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

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

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

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

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

We generally consider that ISA 540 (Revised) has been successful in promoting greater professional scepticism when auditing accounting estimates. The primary challenge identified was not the application of professional scepticism itself, but rather demonstrating and documenting how professional scepticism was exercised in practice. In particular, auditors may find it difficult to clearly evidence the challenge applied to management's judgments, the consideration of contradictory evidence, and the basis for conclusions reached, especially in complex or highly judgmental estimates. Stakeholders suggested that additional practical guidance or examples illustrating how professional scepticism may be documented could support more consistent application and inspection outcomes.

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)?

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

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

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

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

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

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

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

Stakeholders noted challenges in understanding the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment procedures and the understanding required of accounting estimates.

While stakeholders generally understand that ISA 540 (Revised) builds upon the broader risk assessment requirements of ISA 315 (Revised 2019), some noted that, in practice, it is not always clear where the requirements of one standard end and the more estimate-specific requirements of the other begin. This can create uncertainty regarding the extent of additional work required for accounting estimates and may lead to duplication of procedures or documentation.

Stakeholders also observed that risk assessment practices have evolved since the introduction of ISA 315 (Revised 2019). In particular, considerations relating to management bias and fraud are increasingly assessed as pervasive risks at the financial statement level rather than being linked to specific assertions or individual accounting estimates. As a result, there can be uncertainty regarding how these broader risk considerations should be reflected within the risk assessment process for individual accounting estimates under ISA 540 (Revised).

We therefore suggest that additional guidance illustrating the interaction between ISA 315 (Revised 2019) and ISA 540 (Revised), including practical examples of how the requirements can be applied in an integrated manner, would support more consistent implementation and reduce the risk of unnecessary duplication.

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.

We generally consider the risk assessment requirements in ISA 540 (Revised) to be operating effectively and to have contributed to a more structured and robust approach to identifying and assessing risks related to accounting estimates. The enhanced focus on understanding management's methods, assumptions, data and processes has improved auditors' understanding of accounting estimates and the factors that give rise to risk.

The most commonly identified challenge relates to the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). While stakeholders recognise that ISA 540 (Revised) builds on the broader risk assessment requirements in ISA 315 (Revised 2019), there can be uncertainty regarding the extent of additional procedures and documentation required specifically for accounting estimates. This may result in duplication of effort in some circumstances.

Stakeholders also noted that challenges are generally concentrated in accounting estimates involving higher levels of complexity, subjectivity or estimation uncertainty, including estimates that rely on complex models, specialised assumptions or significant management judgment. In these circumstances, obtaining an understanding of management's process and assessing the impact of the various inherent risk factors may require significant auditor judgment and specialist involvement.

By contrast, retrospective reviews of previous accounting estimates were generally not viewed as particularly challenging, as outcomes can often be corroborated through subsequent events or available information. Similarly, stakeholders did not identify significant challenges in determining whether risks relating to accounting estimates should be classified as significant risks.

Overall, we consider that the identified challenges are more closely associated with the complexity of particular accounting estimates and the interaction of ISA 540 (Revised) with other auditing standards, such as ISA 315 (Revised), rather than with the fundamental design of the risk assessment framework in ISA 540 (Revised).

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

Yes

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

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

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

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

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

We also note that, before undertaking significant revisions to ISA 540 (Revised), the IAASB should consider the outcomes of

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

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

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

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Responses to the Assessed Risks of Material Misstatement					
(a) Determining the most appropriate response(s) to the assessed risks of material misstatement at the assertion		X			
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.			X		
(c) Appropriately applying the testing approach of obtaining audit evidence about events occurring up to the date of the auditor's report, either alone or with another testing approach(es).			X		
(d) Testing how management made the accounting estimate.		X			
(e) Developing an auditor's point estimate or range.		X			
Overall Evaluation					
(f) Determining whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.				X	
(g) Evaluating identified misstatements related to accounting estimates, including when the audit evidence supports a point estimate that differs from management's point estimate or a range that does not include management's point estimate, or when the auditor's range is wide (in some cases, multiples of materiality for the financial statements as a whole).		X			

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

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Testing management's selection of the method, significant assumptions, and data used, including whether management's judgments give rise to indicators of possible management bias.		X			
(b) Understanding management's application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used.		X			
(c) Whether management has taken appropriate steps to understand and address estimation uncertainty, including the selection of an appropriate point estimate and developing related disclosures about estimation uncertainty.		X			

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

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

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

Stakeholders identified challenges in responding to assessed risks of material misstatement for accounting estimates, particularly in relation to estimates involving higher levels of estimation uncertainty, complexity, specialised methodologies or significant management judgment.

A recurring theme was the challenge of testing how management developed accounting estimates, including evaluating the appropriateness of methodologies used, assessing the reasonableness of assumptions, and obtaining sufficient evidence regarding the accuracy and completeness of the underlying data. These challenges become more pronounced where estimates are supported by complex models or involve specialised knowledge.

We also note practical difficulties in determining the most appropriate audit response for different types of estimates, including how audit procedures should vary between lower-risk and higher-risk estimates. In particular, questions were raised regarding when it is appropriate to rely on testing management's process and when it may be more appropriate for the auditor to develop an independent point estimate or range.

Developing and evaluating auditor point estimates and ranges continues to be a challenging area. There are difficulties in determining the appropriate range of reasonable outcomes, supporting the assumptions and methodologies used in developing auditor ranges, and evaluating differences between management's estimate and the auditor's point estimate or range, particularly where there is significant estimation uncertainty.

Other challenges relate to the use of specialists and experts. These include determining when specialist involvement is necessary, identifying the appropriate expertise required, and effectively evaluating and challenging the work performed by management's experts or auditor's experts, particularly in relation to complex methodologies and models.

Overall, we consider that the most significant challenges arise in relation to accounting estimates characterised by higher levels of complexity, subjectivity and estimation uncertainty. While challenges relating to scalability and proportionality may arise for less complex estimates, these were generally viewed as less significant than the challenges associated with more complex accounting estimates.

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

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

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

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

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

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

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

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

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

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

Stakeholders generally did not identify significant challenges relating to communications with management or those charged with governance. In many cases, the implementation of ISA 540 (Revised) has led to more frequent and robust discussions regarding accounting estimates, estimation uncertainty, assumptions, methodologies and supporting evidence.

Challenges were more commonly identified in relation to the use of specialised skills and knowledge, particularly for complex accounting estimates involving sophisticated methodologies, models or significant estimation uncertainty. Stakeholders noted difficulties in determining when specialist involvement is necessary, identifying the appropriate expertise required, and evaluating or challenging the work performed by management's experts or auditor's experts. These challenges can be particularly acute for smaller firms, where access to specialised expertise may be more limited.

Documentation was identified as a significant practical challenge. Stakeholders indicated that it can be difficult to determine the extent of documentation necessary to demonstrate compliance with the requirements of ISA 540 (Revised), particularly in relation to evidencing professional scepticism, the challenge applied to management's judgments, the consideration of contradictory evidence, and the rationale supporting conclusions reached on accounting estimates. Stakeholders also noted that differences of opinion can arise in practice between regulators and practitioners regarding what constitutes sufficient documentation. As a result, auditors may devote considerable effort to documenting procedures and conclusions, particularly in complex areas involving estimates, models and auditor-developed ranges.

Overall, we consider that the principal challenges in this area relate less to the performance of audit procedures and more to evidencing, documenting and demonstrating the work performed and the conclusions reached in a manner that meets regulatory and inspection expectations.

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

Difficult to Determine

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

We suggest that the IAASB develops additional non-authoritative guidance and practical implementation materials to support the application of ISA 540 (Revised), particularly in relation to documentation, the use of specialists, and the audit of complex accounting estimates involving significant estimation uncertainty.

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

Stakeholders also noted that the use of specialists and experts is an area where additional case studies and practical examples would be particularly valuable. Examples demonstrating how auditors may evaluate and challenge the work of experts, exercise professional scepticism, and appropriately document the procedures performed and conclusions reached would support more consistent application in practice. Finally, stakeholders encouraged the IAASB to consider the interaction of ISA 540 (Revised) with other ongoing standard-setting projects, including those relating to audit evidence and technology. Before undertaking significant revisions to ISA 540 (Revised), stakeholders believe it would be beneficial for the IAASB to assess how any changes arising from those projects may affect the application of ISA 540 (Revised), and whether they address some of the implementation challenges identified through this review.

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