

ISA 540 (Revised) Post-Implementation Survey

Response ID:362 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) : BDO International

Name(s) of contact(s) for this submission : Michèle Rose

Job title or role : Head of Global Audit Methodology

E-mail address(es) of contact(s) : michele.rose@bdo.global

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

Accounting Firm

Specify the type of accounting firm you represent:

Global accounting firm

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

Global

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

No

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) is a more robust standard that provides more structure to engagement teams when considering estimates than its predecessor, but its effectiveness depends heavily on the quality of management's supporting documentation.

On the positive side, we consider that the revised standard has enhanced audit quality in several areas. It has strengthened risk assessment processes around estimates, including a clearer focus on inherent risk factors such as estimation uncertainty, complexity, and subjectivity. The use of the spectrum of inherent risk supports more effective differentiation between low and high-risk estimates, enabling a more targeted audit response. It has also driven earlier consideration of accounting estimates in the audit process, a more structured approach to determining the audit response with a greater emphasis on challenging management's methods, assumptions, data, and disclosures. In addition, enhanced documentation requirements have improved transparency and consistency.

However, the extent of these improvements has been uneven, and practical challenges remain. In particular, the standard introduces greater complexity and increased documentation requirements, making it difficult to apply proportionately, especially for less complex estimates. Auditors also face challenges in integrating the requirements with ISA 315, ensuring consistent application, and effectively using specialists where needed.

A key theme across perspectives is that audit quality issues are not primarily driven by deficiencies in the standard itself, but by implementation challenges. These include inconsistent application by engagement teams and, importantly, limitations in the quality of estimates prepared by management, which are not always sufficiently robust or auditable. While the broader financial reporting environment continues to evolve, the fundamental nature of accounting estimates remains unchanged, and many difficulties arise from differences in interpretation and execution across stakeholders.

Overall, ISA 540 (Revised) provides a stronger audit framework and has contributed to improvements, but it has not fully resolved underlying execution challenges. Its success ultimately depends on how effectively it is applied in practice by both auditors and preparers.

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: Non-authoritative guidance and supporting materials are valuable in supporting the implementation of ISA 540 (Revised). They help clarify key concepts, support training, and promote more consistent application across engagements, as well as assist firms in developing methodologies. However, their practical impact is somewhat uneven, and several limitations remain. In particular, the materials do not fully address key challenges such as scalability and proportionality, documentation effort, and integration with ISA 315. In addition, the overall volume of guidance can reduce usability, making it harder for practitioners to navigate and apply effectively. We would welcome more practical, targeted examples, especially those that: • demonstrate how to apply the requirements proportionately across different levels of complexity (scalability), • illustrate how to select between different audit approaches in practice, and • reflect a range of estimate types and complexities. Overall, while the guidance is useful and directionally helpful, its effectiveness would be enhanced by a stronger focus on practical application, simplification, and usability in real-world audit settings.

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:

ISA 540 (Revised) has generally strengthened audit quality by introducing a more structured, disciplined, and transparent approach to auditing accounting estimates. Key improvements include a stronger focus on risk assessment, particularly the identification of inherent risk factors such as estimation uncertainty, complexity, and subjectivity, strengthening the link to ISA 315 (Revised). This has supported earlier and more robust identification of risks, enabling more targeted and effective audit responses.

The standard has also enhanced the need for professional scepticism, encouraging auditors to more rigorously challenge management's methods, assumptions, and data rather than relying heavily on specialists. Increased emphasis on management bias and the consideration of contradictory evidence, supported by formalised stand-back evaluations, has strengthened auditors' ability to assess the reasonableness of estimates and identify potential bias or manipulation.

In addition, ISA 540 (Revised) has driven improvements in audit documentation, requiring clearer articulation of judgments and enhancing transparency and consistency. There is also greater focus on the reliability and relevance of data, as well as on disclosures, particularly in relation to estimation uncertainty. These changes have contributed positively to both audit quality and financial reporting outcomes, with improvements reflected in internal and external inspection findings.

Supporting materials, including educational guidance and templates, have further reinforced these benefits by aiding implementation and promoting consistency.

Furthermore, the requirement to communicate significant estimates with TCWG leads to a better understanding of the extent and significance of estimates used in financial statements and in some cases, has improved the understanding of the TCWG in this area.

However, the extent of impact has been mixed, with benefits varying across engagements. Where robust procedures already existed under the previous standard, the revised requirements have not always resulted in significant additional improvements.

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

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

2 – Minor Issues or Challenges

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

ISA 540 (Revised) is conceptually capable of being applied proportionately, supported by its emphasis on inherent risk factors and the spectrum of inherent risk, which provide a strong foundation for tailoring audit procedures based on the complexity and uncertainty of estimates.

In practice, however, scalability remains a recurring challenge. Engagement teams often apply a similar depth of procedures and documentation across both higher and lower risk estimates, resulting in effort that is not always proportionate to the risk of the estimate. The requirement to explicitly assess and document risk factors and link them to audit responses can lead to extensive documentation, even where risks are on the lower end of the spectrum.

Additional factors further complicate proportionate application, including:

- Limited entity or TCWG understanding and poor-quality supporting documentation, which can increase audit effort and create fee pressures
- Over-reliance on specialists, potentially reducing focus on underlying processes and controls

Despite these challenges, where professional judgment is applied effectively, auditors are generally able to vary the nature, timing, and extent of procedures appropriately, and only minor practical issues are experienced in some cases.

Overall, while ISA 540 (Revised) provides a robust framework for scalability, its effective and efficient application in practice remains challenging. In some instances, the entity's approach to material estimates in less complex entities are simplistic and subjective, which makes the application of ISA 540 (Revised) difficult.

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

Difficult to Determine

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

There is a clear opportunity for the IAASB to enhance the consistency of application of ISA 540 (Revised) through more targeted and operational guidance.

A key priority is the development of clearer scenario-based guidance focusing on the use of 'real-life' examples, particularly on how to scale audit procedures and documentation based on risk and materiality.

We recommend these examples illustrate:

- what constitutes "sufficient" audit work for lower-risk or less complex estimates,
- practical examples of robust controls, evidence, and audit responses for higher-risk or more complex estimates, and
- guidance on how to efficiently link risk assessment outcomes to the selection of audit approaches.

Further clarity on applying the concepts of inherent risk factors and the spectrum of risk in a proportionate manner would help drive more consistent and effective implementation across engagements.

Additionally, the IAASB could consider strengthening the framework by:

- Clarifying expectations of management and TCWG in providing appropriate, audit-ready supporting information, and
- Placing greater emphasis on focusing audit effort on higher-risk estimates, clarifying that work effort remains aligned with risk and is not disproportionately applied.

Overall, enhanced example-driven non-authoritative guidance would support more consistent, proportionate, and efficient application of the standard in practice.

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

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

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

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

ISA 540 (Revised) provides a clear and robust framework for exercising professional skepticism, including explicit requirements to challenge management, consider contradictory evidence, and identify indicators of bias in accounting estimates. This has contributed to improvements in how skepticism is applied, particularly through more structured approaches such as stand-back evaluations and enhanced focus on management bias.

However, practical challenges remain, particularly in complex or highly judgmental areas. Applying professional skepticism consistently can be difficult where:

- engagement teams have limited understanding of complex models,
- there is too great a reliance on management explanations or specialist input, or
- observable data is limited, reducing the availability of objective evidence.

Behavioural and cultural factors also play a role, including:

- reluctance to challenge specialists or management
- tension between rigorous challenge and maintaining client relationships, and
- inconsistent depth of scrutiny of key assumptions.

A recurring theme from outreach is that challenges for implementing ISA 540 often arise not from the standard itself, but from the quality of inputs to the audit. In particular, weak or poorly supported estimates prepared by management can make it more difficult for auditors to effectively apply professional skepticism and obtain sufficient appropriate evidence.

In addition, while clearer requirements have led to improvements in how the work on estimates is documented, they also often lead to extensive effort to evidence the application of professional skepticism, including the consideration of contradictory evidence, which does not always enhance the quality of the underlying judgments.

Overall, ISA 540 (Revised) has strengthened the framework and expectations for professional skepticism, but its effectiveness in practice depends on:

- the capability and confidence of auditors the quality of management-prepared estimates and supporting documentation
- behavioural factors that are not fully addressed by standards alone.

Further improvements could be achieved through enhanced entity preparedness and better documentation of management judgments, alongside continued focus on auditor training and examples to aid consistent application.

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)?

There is broad alignment that further improvements in the application of professional skepticism require action beyond the standard itself, particularly through enhanced guidance and stronger engagement with preparers regarding the requirements for estimates.

A key priority is the development of targeted, non-authoritative guidance with up-to-date real-life examples. These examples would:

- illustrate how to consistently challenge assumptions and identify indicators of bias
- provide guidance for involvement of specialists
- clarify the expected level of rigor, particularly for higher-risk estimates
- provide practical examples for complex scenarios, including situations with high estimation uncertainty or limited external data.

Additional examples demonstrating how to efficiently document professional skepticism, including the consideration of contradictory evidence and stand-back evaluations, would also support more consistent and effective application.

A recurring theme is the importance of improving the quality of management-prepared estimates. Closer collaboration with accounting standard-setters and the development of guidance aimed at preparers (management and TCWG) would help:

- reinforce their responsibility to provide robust, well-supported, and auditable estimates, and
- establish clearer shared expectations between auditors and entity management.

There is also a need to consider how management accountability can be strengthened, particularly in cases where estimates and supporting documentation are insufficient.

Overall, while ISA 540 (Revised) provides a strong foundation, enhanced practical guidance and improved preparer engagement are critical to achieving more consistent, effective application in practice.

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

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

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

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.

Challenges arise in applying ISA 540 (Revised) primarily because of the significant level of professional judgment and documentation required, particularly for complex or highly judgmental accounting estimates.

A core difficulty lies in the practical application of risk assessment concepts, including:

- assessing the interrelationship of inherent risk factors,
- distinguishing between inherent and control risk, and
- determining whether a risk constitutes a significant risk.

These assessments are often nuanced and can vary depending on the estimate's nature and the entity's control environment, leading to inconsistencies in application across engagements.

Further challenges arise in integrating ISA 540 with ISA 315 (Revised 2019). In practice, procedures are sometimes performed in silos rather than as a cohesive risk assessment, resulting in:

- duplication of work or documentation, and
- inefficiencies in achieving a clear, streamlined audit approach.

Obtaining and documenting a sufficient understanding of how management develops accounting estimates is also a common issue. This is often affected by:

- poor system documentation,
- over-reliance on prior-year files, and
- limitations in client processes or supporting evidence.

As a result, there may be incomplete or inconsistent identification and assessment of risks of material misstatement, particularly

where inherent risk factors are not fully / consistently considered or changes identified from prior years.

In more complex areas, additional challenges arise when:

- estimates involve high estimation uncertainty,
- specialised models or methodologies are used, or
- assumptions are highly subjective,

making it more difficult to perform procedures such as retrospective reviews and to obtain sufficient appropriate audit evidence.

Overall, while the requirements of ISA 540 (Revised) are generally clear, their effective application requires considerable judgment, and practical challenges persist in ensuring a consistent, integrated, and efficient risk assessment process across engagements.

18B. Indicate the extent to which you agree with the following statements with respect to reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation.

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

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

ISA 540 (Revised) has strengthened the structure and consistency of risk assessment, particularly through the introduction of inherent risk factors, which support improved identification and evaluation of risks related to accounting estimates. Retrospective reviews are also recognised as a valuable audit tool, providing important insights into management bias and the ability to estimate as well as informing current-year risk assessment.

However, practical challenges remain, especially in applying these concepts consistently and proportionately.

A key issue is the effective application of professional judgment in risk assessment, including:

- consistently identifying significant assumptions and relevant inherent risk factors,
- appropriately distinguishing between inherent and control risk, and
- ensuring the risk of material misstatement is adequately considered in the assessment process.

While these concepts are generally understood, there are challenges in assessing and documenting their interrelationships and in linking risk assessment outcomes to the selection of appropriate audit procedures, particularly when multiple approaches may be suitable.

Integration with ISA 315 (Revised 2019) has improved the overall framework, but in practice, scalability and efficiency issues persist, with risks of duplication or fragmented execution across standards.

Challenges are more pronounced for complex estimates, especially where:

- estimation uncertainty is high,
- assumptions are highly subjective, or
- external data is limited,

making it difficult to determine whether sufficient appropriate audit evidence has been obtained.

Retrospective reviews do add value when completed as intended but can be:

- resource-intensive,

- sometimes treated as a procedural formality, and
- Sometimes less informative where underlying assumptions or economic conditions have changed between periods.[MR1.1][JR1.2][MR1.3][JR1.4][MR1.5][JR1.6]

In addition, weaknesses in client processes and documentation, including reliance on prior-year information, can limit auditors' ability to obtain a robust understanding of how estimates are developed, further affecting risk assessment quality.

Overall, while ISA 540 (Revised) and ISA 315 together provide a strong and coherent framework, their effective implementation requires careful judgment, sufficient resourcing, and high-quality inputs, with ongoing challenges in achieving consistent, proportionate, and efficient application in practice.

Additional non-authoritative guidance could therefore be helpful, particularly in relation to addressing highly complex estimates and ensuring a more consistent application in practice. The interplay of various factors and complex cause-and-effect relationships make analysis difficult.

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?

No

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)?

There is a clear need for the IAASB to further support the consistent application of ISA 540 (Revised) through enhanced, example-driven guidance.

A key priority is the development of non-authoritative materials which focus on real-life case studies, illustrative documentation, and learning resources that demonstrate how to:

- identify accounting estimates and assess inherent risk characteristics of the estimates,
- apply a fully integrated ISA 540 (Revised) and ISA 315 (Revised) approach, avoiding siloed risk assessment processes,
- challenge significant assumptions and appropriately evaluate variances or differences.

These materials should include examples that clearly differentiate between lower- and higher-risk estimates, helping auditors understand how to calibrate the nature, timing, extent, and documentation of procedures proportionately.

Further guidance is also needed to address specific practical challenges, including:

- how to clearly and proportionately link risk assessment conclusions with the responses to those risks
- how to efficiently perform and document retrospective reviews, especially when there has been a change in the underlying assumptions and/or economic conditions
- how to assess the sufficiency and appropriateness of audit evidence, particularly in situations with limited external data or high estimation uncertainty and
- how to challenge management when there are differences between management's estimate and the auditor's review thereof.

In addition, working alongside the IASB, developing guidance targeted at preparers of financial statements to clarify expectations of management and TCWG around the quality and extent of supporting evidence. This would help to alleviate some of the issues auditors find in practice and promote more effective dialogue about estimates between auditors, preparers and also regulators.

Overall, new example-driven non-authoritative materials (e.g., case studies, illustrative documentation and training) would support more consistent, efficient, and risk-focused application of ISA 540 (Revised) in practice.

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

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

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Responses to the Assessed Risks of Material Misstatement					
(a) Determining the most appropriate response(s) to the assessed risks of material misstatement at the assertion level from among the testing approaches in paragraph 18 of ISA 540 (Revised).			X		
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.			X		
(c) Appropriately applying the testing approach of obtaining audit evidence about events occurring up to the date of the auditor's report, either alone or with another testing approach(es).			X		
(d) Testing how management made the accounting estimate.		X			
(e) Developing an auditor's point estimate or range.		X			
Overall Evaluation					
(f) Determining whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.			X		
(g) Evaluating identified misstatements related to accounting estimates, including when the audit evidence supports a point estimate that differs from management's point estimate or a range that does not include management's point estimate, or when the auditor's range is wide (in some cases, multiples of materiality for the financial statements as a whole).			X		

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

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

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

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

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

We consider, in general, ISA 540 (Revised) provides a clear and well-structured framework for responding to risks related to accounting estimates, including explicit expectations for selecting audit approaches and evaluating outcomes. The standard effectively outlines responsibilities and key factors to consider, supporting a more disciplined and risk-driven approach.

However, challenges arise in its application, particularly for complex or highly uncertain estimates. In such cases, auditors may face difficulty in:

- Selecting and documenting the most appropriate audit response, especially where multiple approaches may be suitable or need to be combined
- Ensuring procedures remain truly responsive to the risk, rather than defaulting to standardized or checklist- approaches
- Applying professional judgment consistently, particularly when estimates involve significant uncertainty or complexity and sufficiently documenting the application thereof.

Obtaining sufficient appropriate audit evidence can also be challenging, particularly where:

- external data is limited, or
- estimates rely heavily on subjective assumptions or specialized/unestablished models

Additional complexity arises when evaluating differences between management's estimate and the auditor's independent estimate or range. In practice, particularly in areas such as valuations, ranges can be wide and may exceed overall materiality, creating difficulty in determining whether an estimate is reasonable or misstated.

Overall, while the standard provides a robust conceptual and procedural framework, its effective application depends heavily on auditor judgment, particularly in high-risk or high-uncertainty scenarios. Challenges are less about clarity in the standard and more about consistent execution in complex real-world situations.

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

No

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

To address ongoing challenges in applying ISA 540 (Revised), we recommend that the IAASB to provides additional non-authoritative guidance focused on real-world application.

A key area for enhancement is the development of realistic examples that demonstrate how to design and execute risk-responsive audit procedures, particularly for complex or high-uncertainty estimates. This would include guidance on how to:

- tailor audit procedures to the assessed level of risk,
- avoid overly standardised or checklist-driven approaches, and
- apply professional judgment in selecting an appropriate audit strategy.

Further guidance is also needed on evaluating audit evidence and conclusions, particularly in complex scenarios. In particular:

- examples illustrating how to interpret and evaluate wide ranges,
- clearer direction on how such ranges should be assessed in relation to materiality, and
- guidance on determining whether differences between management's estimate and the auditor's range constitute a misstatement.

In addition, developing supporting materials for preparers (management and TCWG) would help clarify expectations around the quality and extent of supporting evidence, encouraging more effective engagement in the audit process.

Overall, enhanced example-driven guidance would support more consistent, proportionate, and judgment-focused application of ISA 540 (Revised), particularly in complex areas where challenges for auditors are the most pronounced.

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

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

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

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

In relation to communication with TCWG, auditors often face difficulty in clearly explaining:

- the nature, complexity, and uncertainty of accounting estimates,
- significant judgments and qualitative considerations, and
- potential management bias and related risks.

These challenges are particularly evident for complex or highly subjective estimates, where careful and effective communication is required to ensure stakeholders fully understand both the risks and the basis for the auditor's conclusions.

The use of auditor's experts has increased under ISA 540 (Revised), which has been beneficial in supporting consistent audit

quality in complex areas such as valuations and impairment. However, practical challenges remain, including:

- inconsistent practices in how auditors plan, oversee, review, and challenge the work of their experts,
- uncertainty about the extent of auditor responsibility when relying on expert input, particularly where the auditor's expert is evaluating the work of a management expert, and
- confusion between the roles of management's experts and the auditor's experts, leading to inconsistencies in approach and documentation.

In addition, there are challenges in:

- determining what constitutes sufficient audit procedures beyond involving an expert, and
- establishing the appropriate level of documentation to demonstrate effective evaluation and challenge of expert work.

Balancing robust documentation requirements with effective communication and stakeholder relationships can further increase complexity in practice.

Overall, while ISA 540 (Revised) has strengthened the framework for communication with management and TCWG and expert involvement, its application in practice remains inconsistent, with a need for clearer expectations and more consistent approaches in these areas.

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

No

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

To address challenges in the use of experts, there is a clear need for the IAASB to provide greater clarity and more practical guidance to support consistent application in practice.

A key priority is to clarify auditor responsibilities when using specialists and auditor's experts, including:

- more explicit expectations for auditor involvement in planning, supervising, reviewing, and challenging expert work, including the timing of this involvement,
- clearer guidance on the level of evaluation required when an auditor's expert assesses the work of a management expert, and
- better definition of what constitutes sufficient audit evidence and documentation in these scenarios.

Further alignment with ISA 315 and ISA 620, supported by integrated guidance, would help ensure a more cohesive, risk-based approach and reduce inconsistencies across engagements.

In addition, the development of practical, example-driven non-authoritative materials—including case studies—would be highly beneficial. These should demonstrate:

- how to apply a proportionate and risk-focused approach to using experts, particularly for higher-risk estimates,
- how auditors should challenge and evaluate expert work in practice, and
- how to document this work effectively without unnecessary complexity.

Overall, enhanced clarity and non-authoritative guidance would help reduce divergence in practice, strengthen auditor judgment, and support more consistent and effective use of experts, particularly in complex and highly judgmental areas.
