ISA 540 (Revised) Post-Implementation Survey

Response ID:412 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) : Botswana Accountancy Oversight Authority
Name(s) of contact(s) for this submission : Ephifania Nkanga
Job title or role : Acting Chief Executive Officer
E-mail address(es) of contact(s) : ceo@baoa.org.bw

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

Regulator or Audit and Assurance Oversight Body

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

Africa

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. : The ISA 540(R) PIR survey link was published on the Authority's social media platforms for stakeholder comment and circulated via email to auditors for their input.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : • PIE and non-PIE Audit firm / Auditor • Preparer of financial statements • User of financial statements • Professional Accountancy Organisation • Academia • Other

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).

Following the public consultation, feedback was received exclusively from PIE and non-PIE audit firms and auditors. Consequently, the views expressed in this response reflect the collective input from these stakeholder groups alongside the Authority's perspective, which is informed by observations noted during audit inspections.

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 achieved its intended purpose of enhancing audit quality in relation to accounting estimates and related disclosures. The revised standard has strengthened auditors' focus on professional skepticism, risk assessment, and the evaluation of management assumptions and methodologies. The introduction of inherent risk factors and objective-based requirements has improved the rigor and consistency of audit procedures, particularly for complex and judgmental estimates. The standard has also contributed to improved communication between auditors, management, and those charged with governance regarding estimation uncertainty and related disclosures. The standard has encouraged more robust documentation and greater involvement of specialists where appropriate.
However, the standard continues to present steep application challenges regarding scalability for less complex entities (SMEs) as it requires extensive documentation even for simple accounting estimates. Non-authoritative guidance could be developed to assist auditors in scaling down documentation requirements to avoid unnecessary documentation which may overshadow the necessary qualitative assessment.

Additional practical guidance and industry-specific implementation examples would further support consistent application across jurisdictions.

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

Yes

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

3 – Agree

Comments: The non-authoritative guidance and implementation support materials developed by the IAASB have been valuable and useful in assisting firms and practitioners with implementation of ISA 540 (Revised). The materials have helped clarify the intended application of key concepts, including the spectrum of inherent risk, retrospective reviews, management bias considerations, the relationship between risk assessment and audit responses and the linkages between ISA 540 (Revised) and other ISAs. The guidance also provides practical explanations and examples on key areas such as identifying and assessing risks of material misstatement, selecting appropriate audit responses, evaluating estimation uncertainty, developing auditor point estimates or ranges, and identifying indicators of management bias. This is especially valuable for audits involving complex estimates. The materials are also helpful for training purposes and for smaller and medium-sized audit firms that may not have extensive in-house technical resources. However, additional industry-specific examples, practical case studies and simplified implementation guidance for SMEs and less complex entities would further enhance consistency and ease of application across different jurisdictions and firm sizes. The IAASB should consider developing additional non-authoritative guidance demonstrating how ISA 540 (Revised) can be applied proportionately in audits of SMEs and less complex entities, for example, practical examples illustrating scalable documentation, risk assessment, and testing approaches would be particularly beneficial.

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?

No

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.

From a regulatory perspective, we have observed instances where auditors applied a largely uniform approach to auditing accounting estimates, without adequately scaling their procedures to reflect the complexity, estimation uncertainty, and inherent risk associated with different estimates. In some cases, this resulted in audit procedures that were insufficiently responsive to the risks involved. When auditing Expected Credit Losses (ECL) a simplified approach was applied despite the nature and complexity of the estimate warranting more robust procedures or the involvement of an expert. Similarly, in some small and medium-sized audit firms, limitations in experience and technical expertise contributed to audit procedures that were not appropriately tailored to the assessed risks. Auditors, however, noted that while ISA 540 (Revised) is intended to be scalable, they have experienced moderate challenges in applying the standard proportionately to smaller and less complex entities. In practice, the level of documentation, risk assessment, and audit evidence expected can sometimes appear excessive for simple accounting estimates with low estimation uncertainty.

Auditors also highlighted difficulties in consistently applying concepts such as inherent risk factors, the separate assessment of inherent and control risk, and stand-back evaluations across engagements of varying size and complexity. They indicated that additional practical guidance, illustrative examples, and implementation support tailored to less complex entities would assist in achieving greater consistency and efficiency in the application of the standard.

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)?

The primary challenges appear to relate more to practical implementation and proportional application rather than a lack of clarity in the standard itself. To further support consistent application, the IAASB could consider developing additional non-authoritative guidance focused on scalability and proportionality, particularly for audits of SMEs and less complex entities. Additional practical case studies, industry-specific examples and illustrative documentation samples would be beneficial, especially in areas such as IFRS 9 expected credit losses, fair value estimates and simple provisions. Guidance demonstrating how the extent of audit procedures and documentation may appropriately vary based on the complexity and the risk of the estimate would also assist auditors and regulators in achieving more consistent expectations. Further training materials, webinars and implementation tools tailored for smaller and medium-sized audit firms would help improve understanding and result in efficient application of the revised standard across different jurisdictions and engagement types.

A flowchart could be developed to illustrate the key considerations in auditing accounting estimates, including the sequence of steps to be followed. For example, the flowchart could demonstrate the assessment of the risk of material misstatement and how scalability and proportionality are considered in line with the risk assessment. The flowchart could then guide auditors in determining the nature, timing, extent, and level of audit evidence required to obtain sufficient appropriate audit evidence for the accounting estimate.

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.

ISA 540 (Revised) has helped reinforce the exercise of professional skepticism in the audit of accounting estimates. This includes supporting greater challenge of management's judgments on the methods, assumptions and data used in developing estimates.

However, we recognise that professional skepticism is influenced by factors beyond the requirements of the standard itself, including experience and competence of engagement teams, the quality of supervision and review, firm methodologies, and the broader audit environment.

One of the key challenges in exercising professional skepticism under ISA 540 (Revised) is balancing an appropriately questioning mindset with the practical realities of management-developed estimates, particularly in smaller entities where formal models, controls and supporting documentation may be limited. Auditors may encounter difficulties in sufficiently challenging highly subjective assumptions, forward-looking information and management bias especially in areas such as expected credit losses, fair value estimates and going concern assessments. In some cases, there may also be limited availability of external corroborative evidence to independently validate management assumptions.

Another emerging challenge relates to the increasing use of complex and technology-enabled estimation techniques, including models supported by artificial intelligence. Such models may make it more difficult for auditors to understand, evaluate, and challenge management's methods, assumptions, data inputs, and outputs, particularly where the underlying processes have a "black box" nature and lack transparency. In this regard, further non-authoritative implementation guidance would be beneficial to assist auditors in applying professional skepticism when auditing complex, model-driven, or AI-supported estimates. Such guidance could include practical considerations for evaluating the reliability and appropriateness of these models, identifying indicators of management bias, and determining when specialised skills or knowledge may be needed.

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)?

The challenges relating to professional skepticism appear to arise more from practical implementation considerations than from

a lack of clarity in the standard itself. To support more consistent application, the IAASB could further expand non-authoritative guidance with practical examples demonstrating how auditors can effectively challenge management assumptions and identify potential management bias in different types of engagements. Additional case studies, illustrative examples and industry-specific guidance relating to areas such as IFRS 9 expected credit losses, fair value estimates, actuarial assumptions and going concern assessments would be beneficial. Guidance tailored for SMEs and less complex entities would also assist auditors in applying professional skepticism proportionately without creating unnecessary documentation burdens. Further training initiatives, workshops and implementation tools focusing on exercising professional skepticism in practice, especially when dealing with subjective or forward-looking estimates, would help improve consistency in audit execution across firms of different sizes and jurisdictions.

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.

From a regulatory perspective, we continue to observe instances where auditors rely heavily on the risk assessment procedures performed under ISA 315 (Revised 2019) and conclude that no substantive audit procedures are necessary for a material accounting estimate solely because the assessed risk of material misstatement has been determined to be low. Even though, this is in line with ISA 540 which only requires auditors to design and further perform audit procedures particularly where an accounting estimate gives rise to a significant risk, this is however contrary to ISA 330.18 which states that irrespective of the

assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. The IAASB needs to consider linking these requirements across the different standards.

Auditors have noted practical challenges in understanding how the requirements of ISA 540 (Revised) interact with those of ISA 315 (Revised 2019) in the context of accounting estimates. While auditors generally do not view the standards as inconsistent, some indicated that it can be difficult to determine how the procedures required by ISA 540 build upon, rather than duplicate, the broader risk assessment work performed under ISA 315. This can create a perception of duplicated effort, particularly when obtaining an understanding of management's processes and related controls over accounting estimates. The challenge is often more pronounced in audits of small and medium-sized entities and in relation to less complex estimates, where management processes may be informal and controls limited. In these circumstances, additional guidance on the interaction between the two standards and on applying the requirements proportionately would assist auditors in designing audit responses that are both risk-focused and scalable to the nature and complexity of the estimate.

Additional practical guidance and examples illustrating the integration of the two standards would help promote consistent and proportionate application.

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 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.

The use of prior-year information can be challenging in periods of significant economic change, as information that was relevant and reliable in previous periods may no longer provide a meaningful basis for assessing current-year accounting estimates as historical data and assumptions can quickly become outdated and be superseded by current and forward-looking information. In such circumstances, auditors are required to exercise greater judgment in determining the extent to which historical information remains useful when performing retrospective reviews on accounting estimates.

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)?

The IAASB could address these challenges by issuing enhanced non-authoritative guidance.

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.

Auditors face challenges in responding to risks of material misstatement in accounting estimates, particularly in selecting appropriate audit procedures. While using post-year-end evidence is often straightforward, greater difficulty arises when testing management's estimation process or when auditors develop their own estimate or range, especially where processes are informal, documentation is insufficient, or estimates involve significant judgment and complex assumptions. Common issues include insufficient challenge of assumptions, inadequate testing of the completeness and accuracy of data used in models, over-reliance on management's experts, and limited consideration of management bias. The key challenge is ensuring audit responses are appropriately tailored to the assessed risk while still obtaining sufficient appropriate audit evidence efficiently.

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)?

The IAASB could consider the following actions to support more consistent and effective implementation of ISA 540 (Revised):

1. Continue engagement with regulators, oversight bodies, and other stakeholders to monitor implementation trends and inspection findings in order to identify areas where further guidance or standard-setting activity may be beneficial.

2. Consider providing additional practical implementation guidance and industry-specific illustrative examples, particularly for small and medium-sized audit practices. Further non-authoritative guidance on auditing complex estimates, management bias, forward-looking assumptions, and the use of external experts would support more consistent and proportionate application of the standard, enhance audit quality, and assist auditors in exercising professional judgment in areas of significant estimation uncertainty.

3. Further clarification on the extent of documentation expected in lower-risk estimates would also help reduce unnecessary compliance burden while maintaining audit quality.

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.

A key challenge relates to effectively communicating with those charged with governance about the degree of estimation uncertainty and the related audit judgments, particularly where complex models and assumptions are involved.

In addition, identifying when to involve auditor's experts and integrating their work into the audit can be challenging, especially where specialized valuation or actuarial knowledge is required.

Additional practical guidance and illustrative examples demonstrating what constitutes proportionate documentation for accounting estimates of varying levels of complexity and risk would assist auditors in applying the documentation requirements more consistently and efficiently.

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)?

The IAASB may consider issuing more practical implementation guidance and industry-specific illustrative examples, particularly for smaller and medium-sized audit practices. Additional non-authoritative guidance on auditing complex estimates, management bias, forward-looking assumptions, and the use of external experts would improve consistency in application. Further clarification on the extent of documentation expected in lower-risk estimates would also help reduce unnecessary compliance burden while maintaining audit quality.

The IAASB could also address these challenges by developing more practical non-authoritative guidance on the use of auditor's experts, including when to involve them, how to evaluate their work, and how to integrate their findings into the overall audit conclusion.