

ISA 540 (Revised) Post-Implementation Survey

Response ID:409 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) : Public Accountants and Auditors Board Zimbabwe

Name(s) of contact(s) for this submission : Tanaka Rebecca Zhangazha

Job title or role : Technical Supervisor - Standards

E-mail address(es) of contact(s) : tanakazhangazha@paab.org.zw

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. : We sent out a survey to gather market feedback

The nature and number (or estimate thereof) of stakeholders with whom you engaged. : Auditors, Preparers, PAOs and Academia

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 achieved its intended objective of enhancing audit quality in relation to accounting estimates by strengthening risk assessment, professional scepticism, audit responses and evaluation of estimation uncertainty. The revised requirements have provided a more robust framework for auditors when addressing significant estimates and related disclosures.

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:

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:

The revised standard has improved audit approaches by promoting a more structured assessment of estimation uncertainty, complexity and subjectivity, resulting in enhanced audit evidence, documentation and consideration of disclosures.

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.

In practice, auditors may perform procedures that are proportionate to the nature and complexity of the estimate, however, demonstrating compliance through documentation often requires a level of effort that may not always appear commensurate with the risk. Nevertheless, the principles-based approach of the standard generally allows for appropriate scaling of audit procedures, and the benefits of improved audit quality and consistency largely outweigh these implementation challenges.

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?

No

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)?

Continue to update the non-authoritative guidance in response to challenges they received from users.

In addition, further guidance on distinguishing between low-risk and high-risk estimates could help auditors tailor their procedures more effectively and avoid unnecessary documentation. Such support would enhance consistency in application, improve efficiency, and reinforce the scalability principles embedded within the standard without requiring significant amendments to the existing requirements.

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 strengthened the emphasis on professional skepticism; however, exercising an appropriately skeptical mindset can be challenging where accounting estimates are supported by complex models, specialist inputs, or significant management judgment. In such circumstances, auditors may find it difficult to effectively challenge assumptions without access to specialised expertise or robust external benchmarks.

Additionally, there can be practical challenges in balancing professional skepticism with maintaining constructive working relationships with management, particularly when estimates are highly subjective. Despite these challenges, the standard has generally encouraged more rigorous evaluation of management's assumptions and enhanced the quality of audit evidence obtained.

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)?

Additional practical examples and implementation guidance may further support consistent application, but the existing requirements are generally clear and appropriate.

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	

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

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

No Response

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)?

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.

These challenges are most prevalent in estimates with a high degree of estimation uncertainty or complexity, such as fair value measurements, impairment assessments, and expected credit loss calculations. The need to evaluate multiple assumptions, consider alternative outcomes, and assess the reasonableness of management's judgments often requires additional audit effort, specialist involvement, and extensive documentation.

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)?

Additional practical examples and implementation guidance could further assist auditors

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.

The implementation of ISA 540 (Revised) has highlighted challenges related to obtaining and evaluating information from management, specialists, and external experts, particularly where accounting estimates involve complex models or significant judgment. Auditors may also encounter difficulties in assessing the competence, capabilities, and objectivity of management's experts and determining the extent of reliance that can be placed on their work.

From a documentation perspective, the enhanced requirements can result in extensive documentation, especially for higher-risk estimates, which may be time-consuming and resource-intensive. In addition, communicating complex estimation assumptions, uncertainties, and audit findings to management and those charged with governance in a clear and understandable manner can sometimes be challenging, particularly where technical matters are involved.

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)?

The IAASB could provide additional practical guidance and illustrative examples demonstrating how auditors can effectively apply professional skepticism when auditing accounting estimates, particularly in areas involving significant judgment, estimation uncertainty, and complex models. Guidance on identifying indicators of management bias and examples of effective challenge procedures would also be beneficial.

In addition, the IAASB could develop industry-specific case studies and training materials to support consistent application of professional skepticism across different audit environments. Such resources would help auditors exercise appropriate challenge while maintaining professional relationships with management and those charged with governance.