Response ID:423 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) : RSM International Limited
Name(s) of contact(s) for this submission : Claire Blanton
Job title or role : Global Leader, Quality and Risk
E-mail address(es) of contact(s) : Claire.Blanton@rsm.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).

RSM International Limited, a worldwide network of independent firms, is the leading provider of audit, tax and consulting services to the middle market.

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.

We consider that International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures, has achieved its intended purpose and the IAASB's objectives for the standard. In particular, ISA 540 (Revised) establishes sufficiently robust requirements and appropriately detailed application material to support high-quality audits of accounting estimates, including reinforcing the importance of professional scepticism and the design and performance of responsive audit procedures.

Feedback from practice, including regulatory observations in jurisdictions such as the United Kingdom (UK), indicates that identified deficiencies more often relate to the application of the standard rather than to deficiencies in the standard itself. This is consistent with broader themes in audit quality, where effective and consistent implementation remains a recurring challenge. Accordingly, we consider the content of ISA 540 (Revised) to be fit for purpose, with the necessary requirements and application material to support auditors in addressing estimation uncertainty and related disclosures.

We note, however, that the timing and sequencing of ISA 540 (Revised) relative to ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, gave rise to some practical challenges. In particular, issuing the standards separately may have contributed to a perception that auditing accounting estimates is a discrete exercise, rather than an integral component of the auditor's risk assessment. Given that accounting estimates are inherently linked to inherent risk factors and the identification and assessment of risks of material misstatement, a more closely aligned or concurrent development of these standards may have better reinforced their conceptual interrelationship.

Notwithstanding this, the absence of identified gaps following the revisions from ISA 315 (Revised 2019) suggests that ISA 540 (Revised) remains appropriately aligned in substance. While the objectives of the standard itself are considered to have been achieved, further enhancements in audit quality are more likely to arise from continued focus on implementation, including training, supervision and the effective use of supporting guidance, rather than from further standard-setting.

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?

4 – Strongly Agree

Comments: We have made use of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised), including those available on the IAASB implementation webpage. These resources are useful and make a meaningful contribution to supporting consistent and effective implementation of the standard. In particular, the illustrative examples, including those contrasting simpler and more complex accounting estimates, are considered robust and well aligned to the requirements and application material within the standard. These examples provide practical insight into how the nature, timing and extent of audit procedures may vary with the complexity and estimation uncertainty, thereby reinforcing the intended scalability of the standard. The flowcharts and other visual tools have also been helpful in clarifying key concepts and supporting auditors in navigating the requirements in a structured manner. The materials represent a valuable complement to the standard and demonstrate the benefits of providing practical, implementation-focused support alongside principles-based requirements. Notwithstanding this positive assessment, we believe that examples described as 'simple' may still reflect relatively sophisticated entities and processes and may involve a level of documentation that exceeds what is typically encountered in less complex environments. The inclusion of additional examples that reflect less complex realistic scenarios would further support proportional application and enhance accessibility for a broader range of practitioners. We encourage the IAASB to continue developing and refining non-authoritative guidance and support tools, building on the strong foundation established for ISA 540 (Revised), to further promote high-quality and consistent application in practice.

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 experienced 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 encountered related to scalability and proportionality.

We observe that, while ISA 540 (Revised) is designed to be scalable and capable of application across a broad spectrum of accounting estimates, moderate challenges remain in achieving consistent and proportionate application in practice.

In particular, we believe that the standard operates effectively in the context of complex estimates and estimation processes when the linkage between estimation uncertainty, inherent risk factors, and the nature, timing and extent of audit procedures is more readily operationalised. However, greater difficulty arises in applying the standard to simpler, lower risk estimates. In such cases, practitioners may be uncertain as to what level the requirements can be scaled, which may result either in an over-application of the standard or in the use of informal approaches that may not be clearly aligned with the structure of the standard.

This challenge suggests a disconnection between the intended scalability of the standard—supported by concepts, such as the spectrum of inherent risk and the requirement to tailor audit procedures to the assessed risks of material misstatement—and its ability to be consistently and effectively implemented in lower complexity scenarios. We do not believe this is indicative of a fundamental deficiency in the standard itself but rather reflects practical difficulties in applying the principles-based requirements into proportionate audit responses where estimation uncertainty is lower.

We also note that these observations appear to be consistent across jurisdictions and are not confined to specific regulatory or practice environments. While the standard is conceptually scalable, further support in demonstrating how its requirements can be applied in a proportionate manner to simple, low risk estimates would assist auditors in applying ISA 540 (Revised) more effectively in practice.

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)?

We do not consider that the issues and challenges observed in practice warrant changes to the requirements or application material of ISA 540 (Revised). We believe the standard is clear and sufficiently robust that it is capable of being applied across a range of accounting estimates.

As noted in our response to Question 11, the challenge identified in relation to scalability and proportionality for simple, low uncertainty estimates is primarily implementation related. In our view, this challenge arises not from a lack of clarity or insufficiency in the standard, but from the practical difficulties in operationalising a principles-based standard to less complex scenarios.

Accordingly, we do not believe that further standard-setting is necessary to address this matter. Instead, we suggest that the IAASB focus on enhancing non-authoritative guidance and implementation support. In particular, the development of additional illustrative examples that reflect realistic simple estimates and less complex entity environments that may assist practitioners in more effectively applying the standard in a proportionate manner. Such examples may demonstrate more clearly how the nature, timing and extent of audit procedures may be appropriately scaled where estimation uncertainty and assessed risks of material misstatement are lower.

If the IAASB were to revisit the standard for other reasons, it would be helpful to give consideration to whether additional application material focused on simpler scenarios would be beneficial. However, this should be viewed as supplementary to, rather than a replacement for, the existing requirements and application material.

We encourage the IAASB to prioritise practical implementation support, building on existing non-authoritative materials, to further facilitate consistent and proportionate application of ISA 540 (Revised) 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 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.

While ISA 540 (Revised) includes a number of important features designed to enhance the exercise of professional scepticism, certain challenges remain in its consistent application in practice.

A key challenge relates to appropriately challenging management's judgements, particularly where management makes use of experts. In such circumstances, auditors may place reliance on the work of management's experts, which can create uncertainty as to the extent to which underlying assumptions and methodologies should be independently challenged. While the standard appropriately emphasises the need to 'challenge' and 'question' management's assumptions, applying this in practice—especially in technically complex areas—can require significant judgement and may contribute to moderate challenges in this area.

More broadly, some of the challenges observed in exercising professional scepticism are linked to the application of the standard across estimates of varying complexity. As noted in our response to Question 11, while ISA 540 (Revised) is effective for complex estimates, practitioners may find it more difficult to operationalise an appropriately sceptical approach for simple, lower risk estimates. This may result in either an over-application of procedures or uncertainty as to the extent of challenge required, reflecting a practical application issue rather than a deficiency in the standard.

In contrast, while identifying and responding to indicators of management bias is supported by a clear framework in ISA 540 (Revised), applying professional scepticism in this area can still be challenging in practice. The standard appropriately emphasises the need to identify potential bias; however, doing so requires a high degree of judgement. Auditors may find it difficult to develop independent expectations or to effectively challenge management's assumptions, particularly in complex or highly subjective areas. Notwithstanding this, the requirements and application material provide an appropriate foundation, and no significant deficiencies in the standard itself were observed.

Similarly, while there are minor challenges in ensuring that all relevant audit evidence—both corroborative and contradictory—is appropriately considered, these challenges are not unique to ISA 540 (Revised). Rather, they reflect broader behavioural factors, including the natural tendency to anchor on initial expectations or known information. The standard's requirements, including the need to avoid bias towards corroborative evidence and to 'stand back' in evaluating audit evidence, provide an appropriate framework to address these risks, although consistent application may continue to be a challenge as professional judgement is required.

The challenges identified do not suggest deficiencies in ISA 540 (Revised) itself, but rather reflect the inherent judgement involved in applying professional scepticism consistently across different types of accounting estimates and engagement contexts.

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 do not believe that the issues and challenges identified in relation to the exercise of professional scepticism warrant changes to the requirements or application material of ISA 540 (Revised). The standard is clear and fit for purpose, with appropriate mechanisms—such as the emphasis on challenging management, the requirement to consider both corroborative and contradictory evidence, and the 'stand back' evaluation—designed to support the consistent application of professional scepticism.

Consistent with our responses to earlier questions, the challenges observed are primarily implementation-related, reflecting the inherent judgement required in applying professional scepticism, particularly in complex or highly subjective areas and when evaluating the work of management's experts. Accordingly, we do not suggest reopening or amending the standard.

Rather, we encourage the IAASB to continue focusing on non-authoritative implementation support. In particular, additional practical guidance and illustrative examples may assist auditors in applying the standard more effectively in practice. This includes examples demonstrating how to appropriately challenge management's assumptions, including where management has engaged experts, as well as how to develop independent expectations and evaluate both corroborative and contradictory evidence in a balanced manner.

Further, additional examples that illustrate the application of professional scepticism when auditing simple, less complex estimates may be beneficial in reinforcing how the standard's principles can be applied proportionately for these estimates.

We recommend that the IAASB prioritise enhancing implementation support, rather than undertaking further standard-setting, to address the challenges identified.

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	

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.

While ISA 540 (Revised) establishes a conceptually robust framework for risk assessment procedures, certain challenges arise in practice. These challenges are generally assessed as minor to moderate and are primarily driven by implementation considerations rather than deficiencies in the standard.

Moderate challenges were identified in relation to the consideration of inherent risk factors—namely estimation uncertainty, complexity and subjectivity—and the interrelationships between them. In particular, when accounting estimates involve a high degree of technical complexity, auditors may face difficulty in fully dissecting these factors and clearly articulating what could give rise to a risk of material misstatement. These challenges may be exacerbated when the engagement team does not have sufficient subject-matter expertise or when the involvement of auditor's experts is not appropriately timed. As a result, the ability to develop sufficiently tailored risk assessments and responses may be affected. These challenges are more pronounced for estimates with higher levels of complexity and estimation uncertainty.

Moderate challenges were also observed in understanding management's process for making accounting estimates. ISA 540 (Revised) requires a comprehensive understanding of management's methods, assumptions, data and related controls; however, this can be difficult to achieve in practice, particularly when management processes are informal, documentation is limited or the underlying models and data sources are complex. Auditors may also encounter challenges in evaluating the reliability of external data and the appropriateness of management's models, particularly when expertise is required, but not readily available. While these challenges may arise across a range of estimates, they are more acute for complex estimates and in environments with less mature processes.

Minor challenges were identified in relation to the retrospective review of accounting estimates. Auditors may, at times, focus on numerical differences between prior estimates and outcomes, rather than using the retrospective review as a tool to inform risk assessment and identify potential indicators of management bias. This is a matter of application and training, rather than a lack of clarity in the standard, and is expected to improve over time with experience.

No significant issues were identified in relation to understanding the entity and its environment, including internal control, or in distinguishing between inherent and control risk and identifying significant risks. These aspects were appropriately aligned with ISA 315 (Revised 2019) and consistent with broader risk assessment practices.

The challenges identified relate primarily to estimates with a higher degree of estimation uncertainty and complexity, although certain issues—such as understanding management's processes—may also arise in less sophisticated environments. The requirements and application material set out in ISA 540 (Revised) are considered sound; however, consistent and effective application in practice continues to depend on auditor judgement, expertise, and appropriate use of specialists.

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)?

We do not believe that the issues and challenges identified in relation to risk assessment procedures warrant changes to the requirements or application material of ISA 540 (Revised). The standard is regarded as clear, conceptually robust and appropriately aligned with ISA 315 (Revised 2019).

Consistent with our responses to earlier questions, the challenges observed are primarily implementation-related and reflect the need for continued development of auditor judgement and understanding in applying the risk assessment requirements related to estimates in practice, such as effectively considering inherent risk factors, understanding management's processes and applying the retrospective review as a risk assessment tool.

Accordingly, we do not support reopening or amending the standard. Rather, we believe that these matters are best addressed through firm-level training, guidance and methodology development, which can support auditors in understanding both how to perform procedures and why they are performed.

While we do not believe additional standard-setting or extensive non-authoritative guidance to be necessary, the IAASB may consider, as a supplementary measure, the development of targeted frequently asked questions or similar materials to reinforce key concepts and practical application. However, such actions should remain limited in scope.

We encourage a continued focus on strengthening implementation through education and practical understanding, rather than further changes to ISA 540 (Revised).

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			

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.

In relation to responding to assessed risks of material misstatement under ISA 540 (Revised), the issues and challenges identified in practice are generally minor and implementation driven. No significant issues were identified, and the standard provides clear and appropriate requirements and application material for designing and performing responses to assessed risks of material misstatement.

Minor challenges were noted in determining and articulating the most appropriate response to assessed risks of material misstatement from the testing approaches set out in the standard, particularly for complex estimates such as valuations. While practitioners understand the available approaches—testing how management made the estimate, developing an auditor's point estimate or range and obtaining audit evidence from subsequent events—there may be difficulty in distinguishing between these approaches in practice, especially where auditor's experts are involved. This is primarily a matter of execution and documentation, rather than a lack of clarity in the standard, and is more likely to arise for estimates with a higher degree of complexity.

Similarly, minor challenges were observed in applying specific testing approaches. For example, when using subsequent events as audit evidence, auditors are required to evaluate such evidence in the context of changes between the reporting date and the date of the event, which may not always be consistently applied in practice. In testing how management made the estimate, challenges are consistent with those noted in relation to professional scepticism, including determining the appropriate extent of challenge where management uses experts and clearly distinguishing between methods, assumptions and data. These issues are not indicative of deficiencies in ISA 540 (Revised), but rather reflect the judgement required in applying the standard.

In relation to complex modelling, particularly in valuation contexts, audit teams may default to re-performing management's model through the use of experts, rather than focusing on understanding key drivers, evaluating sensitivities and assessing the reasonableness of assumptions. This reflects uncertainty in practice regarding the most appropriate audit approach, rather than a lack of direction in the standard, and is more prevalent in estimates involving higher estimation uncertainty and complexity.

Minor challenges were also identified in determining when to develop an auditor's point estimate or range and in evaluating such estimates once developed. In some cases, particularly where management's process is less robust, auditors may default to developing their own estimate, which may give rise to practical and independence-related considerations, as well as challenges in evaluating and communicating differences between auditor and management estimates. These challenges are context-dependent and are more likely to arise in complex estimates, rather than being attributable to the requirements of the standard.

No specific issues or challenges were identified in relation to determining whether to test the operating effectiveness of controls or in the overall evaluation of whether accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework. These areas were considered to be aligned with broader audit practices and not to present challenges specific to ISA 540 (Revised).

Finally, moderate challenges were observed in evaluating identified misstatements related to accounting estimates, particularly where audit evidence supports a point estimate or range that differs from management's estimate or where the auditor's range is wide. These challenges are primarily driven by the need for judgement in evaluating and communicating such differences and are more likely to arise in complex estimation scenarios or where management's processes are less robust.

The challenges identified are concentrated in estimates with a higher degree of estimation uncertainty and complexity and are attributable to practical application and professional judgement, rather than to any lack of clarity or sufficiency in ISA 540 (Revised).

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)?

We do not believe that the issues and challenges identified in relation to responding to assessed risks of material misstatement and the overall evaluation of accounting estimates and related disclosures are due to a lack of clarity or insufficiency in the requirements or application material of ISA 540 (Revised). The standard is regarded as clear, comprehensive and conceptually robust.

Consistent with our responses to earlier questions, the challenges observed are primarily practical and implementation-driven, reflecting the level of judgement required in applying the standard, particularly in more complex or expert-driven estimation areas. These include determining the most appropriate testing approach, evaluating differences between auditor and management estimates, and navigating practical considerations such as the use of experts and independence constraints.

Accordingly, we do not believe that further standard-setting or additional non-authoritative guidance is necessary to address these matters. Rather, the issues identified are best addressed through firm-level training, methodology and communication with a focus on strengthening auditors' understanding of the underlying objectives of the procedures required by ISA 540 (Revised) and the rationale for their application.

We encourage continued emphasis on enhancing practical understanding and consistent application in practice, rather than changes to the standard or the development of additional guidance.

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 communications, the use of specialised skills or knowledge, and documentation under ISA 540 (Revised), the challenges identified in practice are generally moderate and implementation-driven, rather than indicative of deficiencies in the standard.

With respect to communications, moderate challenges were noted in determining the nature and extent of matters to be communicated, particularly in relation to the quality of management's estimation processes. While accounting estimates often provide insight into the overall robustness of an entity's processes and controls, auditors may focus primarily on reaching a conclusion on the estimate rather than clearly communicating observations or deficiencies identified during the audit. There is an opportunity for more proactive and transparent communication regarding how estimates are developed and what weaknesses in those processes may imply more broadly. These challenges are driven by practice and behavioural factors, rather than a lack of clarity in the standard.

In relation to specialised skills or knowledge, including the use of an auditor's expert, challenges were assessed as moderate. In particular, there may be a tendency for engagement teams to default to involving auditor's experts, especially in valuation contexts, without sufficiently considering whether such involvement is necessary. Conversely, where auditor's experts are used, challenges may arise in clearly defining the scope of their work and ensuring that it aligns with audit objectives, materiality considerations and documentation requirements. It was also noted that auditor's experts, particularly those from non-audit backgrounds, may not always be fully attuned to audit-specific requirements. These challenges are not unique to ISA 540 (Revised) and are consistent with broader considerations under ISA 620, Using the Work of an Auditor's Expert, with the underlying issue relating to application rather than the sufficiency of the requirements.

Documentation was also identified as an area of moderate challenge. In particular, while engagement teams may understand key aspects of the audit of accounting estimates—such as identifying significant assumptions and designing appropriate procedures—this understanding is not always fully or clearly reflected in the audit documentation. Challenges arise in explicitly documenting significant assumptions and demonstrating how audit procedures address those assumptions, which is particularly important in the context of regulatory inspection and the judgemental nature of accounting estimates. This appears to reflect the need for firms and engagement teams to continue embedding into audit practices the more granular documentation requirements introduced by ISA 540 (Revised)^1, compared with the superseded ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures^2, rather than uncertainty regarding the requirements themselves.

The challenges identified across these areas are well understood, are not specific to ISA 540 (Revised) and do not suggest a need for changes to the standard. Rather, they reflect broader audit practice considerations and are best addressed through enhanced training, communication practices and consistent application in practice.

^1 ISA 540 (Revised), para. 39
^2 ISA 540, para. 23 (superseded by ISA 540 (Revised), para. 39)

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)?

We do not believe that the issues and challenges identified in relation to communications, the use of specialised skills or knowledge, or documentation warrant changes to the requirements or application material of ISA 540 (Revised). Consistent with our responses to earlier questions, these matters are not the result of a lack of clarity or insufficiency in the standard but rather reflect practical and implementation-related considerations.

We also do not believe that additional non-authoritative guidance or further standard-setting is necessary. The challenges observed—particularly in relation to effectively communicating observations about management's estimation processes, appropriately involving and utilising auditor's experts, and ensuring that audit documentation fully reflects the work performed and judgements made—are best addressed at the firm level.

In our view, audit firms and networks are best positioned to support improvements in these areas through targeted training, strengthened methodologies and enhanced internal guidance. In particular, continued focus on reinforcing the underlying objectives of audit procedures, improving communication practices and promoting robust documentation discipline will support more consistent and effective application in practice.

We recommend that efforts be directed towards encouraging firms and networks to strengthen implementation through firm and network-led initiatives, rather than through additional actions by the IAASB.