



IAASB™

International Auditing and Assurance Standards Board
AN IFEA BOARD

Post-Implementation Survey

This document includes survey questions for:

- Accounting firms
- Jurisdictional and Other Standard Setters
- Professional Accountancy Organizations (PAOs)
- Regulators and Audit and Assurance Oversight Bodies
- Academia
- Others

!! Not for Submission !!

This document includes the *Word* version of the International Auditing and Assurance Standards Board's (IAASB) public consultation survey for the post-implementation review of International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

It aims to facilitate *stakeholders' internal outreach or information-gathering activities, and drafting and review of responses prior to completing the online survey*.

Please provide your input by using the [online survey](#).

About this Survey

This public consultation survey includes a series of questions to gather input on the impact of ISA 540 (Revised) as part of the IAASB's post-implementation review (PIR) of the standard. The survey was developed with a broad range of stakeholders in mind, including auditors and audit firms, jurisdictional standard setters, professional accountancy or professional organizations, regulators or audit and assurance oversight bodies, preparers or issuers, those charged with governance, investors and other users of financial statements, and academics. The survey questions have been tailored to reflect the perspectives and experiences of different stakeholder groups, ensuring that each respondent is asked questions relevant to their role and interaction with ISA 540 (Revised) or its outputs.

Request and Related Information

Respondents are asked to complete the online public consultation survey for the PIR of ISA 540 (Revised) by following the link provided on the IAASB website. [Access the ISA 540 Post-Implementation Review Survey web page here](#). **Responses to the public consultation survey are requested by June 15, 2026.**

We encourage stakeholders to further distribute the link to the online survey to their members or constituents, as applicable, within their jurisdictions or organizations, and as part of raising awareness or undertaking further outreach activities with all stakeholders.

You may respond to all questions or only selected questions or matters.

All responses to this survey, whether complete or partial, once submitted will be accepted and considered as input for the work of the IAASB project team in relation to the PIR of ISA 540 (Revised). The responses received will be summarized (in various ways, including, for example by stakeholder group) for purposes of progressing the PIR project, including providing feedback to the IAASB and in developing recommendations for possible further actions.

All responses will be considered a matter of public record and submissions will ultimately be posted on the IAASB website.

Structure of the Survey

The questions for respondents are organized in the following sections.

Section I — Background and Purpose

Section II — About the Respondent

Section III — Overall Questions

Section IV — Perceived Benefits from ISA 540 (Revised)

Section V — Potential Issues or Challenges Related to ISA 540 (Revised)

Section I: Background and Purpose

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

1. In June 2018, the IAASB approved ISA 540 (Revised) as a [final standard](#).¹ ISA 540 (Revised) established more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. The standard was effective for audits of financial statements for periods beginning on or after December 15, 2019.
2. ISA 540 (Revised) addressed the following public interest issues:
 - (a) Audit risks were evolving due to a more complex business environment;
 - (b) Fostering improved exercise of professional skepticism; and
 - (c) Realizing public interest benefits through improved communication and transparency.
3. The IAASB made many enhancements to ISA 540 (Revised) to keep pace with the increasingly complex business environment and changes in financial reporting standards. In addition, recurring audit inspection findings criticized the quality of audit work relating to accounting estimates. Therefore, among other enhancements, ISA 540 (Revised) (paragraphs in the standard are indicated in parentheses):
 - (a) Introduced the concept of inherent risk factors, including not only estimation uncertainty but also complexity, subjectivity and others (paragraphs 2, 4, 16).
 - (b) Enhanced risk assessment procedures relating to obtaining an understanding of the entity and its environment, including the entity's system of internal control (paragraph 13).
 - (c) Emphasized the importance of the auditor's decisions about controls relating to accounting estimates by highlighting relevant requirements in ISA 315 (Revised 2019)² and ISA 330³ (paragraphs 19 and 20).⁴
 - (d) Introduced objectives-based work effort requirements directed to methods (including specifically when complex modelling is involved), data and assumptions, to design and perform further audit procedures to respond to assessed risks of material misstatement (paragraphs 7, 19, 22-25).
 - (e) Enhanced the "stand-back" requirements, by adding an evaluation of the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence (paragraphs 33-35).
 - (f) Enhanced the requirements to obtain audit evidence about the disclosures related to accounting estimates and to determine whether the accounting estimates and related disclosures are

¹ Note that all references to paragraphs and other content of ISA 540 (Revised) is to the latest version of the standard in the [2025 IAASB Handbook](#).

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ The ISA 315 (Revised 2019) and ISA 540 (Revised) Task Forces coordinated closely to minimize the extent of conforming changes to ISA 540 (Revised) as a result of ISA 315 (Revised 2019). The conforming changes to ISA 540 (Revised) were generally limited to aligning concepts and terminology and did not change the performance requirements in ISA 540 (Revised).

reasonable in the context of the applicable financial reporting framework, or are misstated (paragraphs 26(b), 29(b), 31 and 35).

- (g) Included a new requirement to consider matters regarding accounting estimates when communicating with those charged with governance (paragraph 38).
4. The IAASB also issued non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams, and illustrative examples.⁵

Post-Implementation Review

Objectives and Approach

5. In September 2025, the IAASB agreed a plan to perform a post-implementation review (PIR) of ISA 540 (Revised). As indicated in the [PIR for ISA 540 \(Revised\) Plan](#), the IAASB aims to achieve the following:
- (a) Determine whether ISA 540 (Revised) has achieved its intended purpose by identifying:
 - (i) Improvements or benefits from applying the revised standard; and
 - (ii) Practical challenges or questions regarding its application, including whether it is being consistently understood and implemented; and
 - (b) Determine what actions, if any, are needed by the IAASB to address identified matters.
6. To support these objectives, the IAASB is undertaking a formal public consultation survey to gather information from a broad range of stakeholders. Additional targeted outreach activities will be undertaken as well to complement the understanding of identified implementation challenges or questions and to augment, as applicable, the public consultation process to ensure input is obtained from all stakeholder groups.

Potential Output

7. Based on the insights from the public consultation survey and other targeted outreach activities, the IAASB will determine appropriate next steps, which may include one or a combination of further information-gathering activities, standard-setting activities, or development of non-authoritative materials.
8. The IAASB may also determine that no further action is needed or that there are opportunities to facilitate or support actions by others.
9. A key consideration will be the nature and extent of any perceived challenges, including whether those challenges are due to lack of clarity or insufficiency of the requirements or application material in the standard.

⁵ Please refer to the [ISA 540 Implementation webpage](#) for more information on the non-authoritative materials.

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)	External Reporting Board
Name(s) of contact(s) for this submission	Misha Pieters
Job title or role	Director – Auditing and Assurance
E-mail address(es) of contact(s)	Misha.pieters@xrb.govt.nz

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

Accounting Firm – Global Accounting Firm	
Accounting Firm – Large National or Regional Accounting Firm	
Accounting Firm – Small- or Medium-Sized Accounting Firm	
Accounting Firm – Sole Practitioner	
Accounting Firm – Public Sector Audit Institution	
Jurisdictional Standard Setter (JSS) or Other Standard Setter	X
Professional Accountancy or Professional Organization (PAOs)	
Regulator or Audit and Assurance Oversight Body	
Preparer or Issuer of Financial Statements (Including Public Sector Organizations), or Those Charged with Governance (TCWG)	
Users of Financial Statements (e.g. investor, analyst, lender or other creditor)	
Academia	
Other – Specify	

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

Africa	
Asia Pacific	X
Europe	
South America	
Middle East	
North America	

Global

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

Yes

X

No

- 4A. **[If the response to question 4 is yes]** Please provide further information about your outreach activities, including:

The manner in which the outreach was undertaken.

One on one discussions were held to solicit views.

The nature and number (or estimate thereof) of stakeholders with whom you engaged.

We engaged with auditors, representatives from professional bodies, regulators and academics.

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).

Input

There are multiple contributing factors impacting the audit of accounting estimates. Our observations below are therefore not only linked to the revision of ISA 540 (Revised).

Accounting estimates can be complex and are frequently the most challenging part of the audit. The preparation of these estimates is often challenging. Some estimates are becoming less precise and the disclosure and transparency of the methods and assumptions used becomes more important. Enhancing accounting estimates will require coordination across the financial reporting and assurance ecosystem. Lessons from sustainability assurance engagements where reporting is highly uncertain will increasingly flow through to auditing accounting estimates. Challenges identified will not be able to be solved by the IAASB alone but will require collaboration with others.

Overall, we found the targeted questions in the survey were narrowly scoped, and focussed on whether the revisions met a purpose established many years ago. We consider it is timely and relevant to explore whether ISA 540 (Revised) is fit for purpose in a rapidly evolving business context. We encourage the IAASB to consider more open-ended questions when undertaking post-implementation reviews in future.

Section III: Overall Questions

This section focuses on whether ISA 540 (Revised) has achieved its intended purposes and objectives.

In revising ISA 540, the IAASB aimed to:

- (a) Establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. These revisions would also emphasize the importance of the appropriate application of professional skepticism when auditing accounting estimates.
- (b) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed.

The IAASB also issued non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams and illustrative examples (refer to the [ISA 540 Implementation Webpage](#)).

Additional Information

Please note, the questions in this section are overarching in nature and allow respondents to share overall views without getting into details. The specific questions in **Sections IV** and **V** that follow provide opportunity for respondents to comment in more detail on specific aspects related to auditing of accounting estimates.

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.

Input

Audit focus has improved, but practical challenges remain

There has been improved audit focus related to accounting estimates. In particular, auditors appear to place greater emphasis on risk assessment, documentation, and the application of professional scepticism. We also heard that adoption of the revised ISA (NZ) 540 has been relatively smooth.

However, recurring inspection findings and increasing complexity indicate that challenges remain particularly in regards to documentation.

The Financial Markets Authority (FMA), the audit regulator of Financial Market Conduct entities in New Zealand, continues to highlight the audit of accounting estimates as an area for continuous improvement. Recurring findings relate to documentation and the sufficiency of audit evidence, the need to assess the integrity of the significant assumptions and to test data used in complex models. There are also ongoing findings related to using an auditor's expert to audit an estimate.

It is not clear whether these challenges arise from the standard itself or from implementation in practice, or a combination of both, nor whether challenges will be better addressed through case studies.

We also note that complexity continues to increase. Accordingly, our response focusses on whether the standard remains fit for purpose in the current context and highlights ongoing challenges in practice, rather than only on whether the revision met the objectives of the project that were established years ago.

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

Yes	X	No
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7A. **[If the response to question 7 is yes]** 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	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
	X			

Input

STAKEHOLDERS VALUE EXISTING GUIDANCE, BUT WANT MORE PRACTICAL CASE STUDIES

Existing non-authoritative guidance was viewed positively by those familiar with it. Those less familiar or who were not aware, cited the time frames since it was issued or the lack of prominence on websites. Given limited resources, we recommend the IAASB re-promote or recycle the relevant parts of the existing guidance so they remain visible to stakeholders.

A recurring theme from our outreach was the need for practical case studies, particularly for “complex” estimates that are commonly encountered in practice. Suggestions we heard included a worked example of a valuation. These worked case studies would supplement and complement the examples in the extant guidance that are more straightforward and simpler.

Section IV: Perceived Benefits from ISA 540 (Revised)

This section seeks to understand stakeholders' perspectives on the perceived benefits or improvements resulting from the implementation of ISA 540 (Revised). The purpose is to gather insights on how the revised standard has, for example, contributed to enhanced audit quality by promoting consistency in the approach to auditing accounting estimates, or contributed to enhanced financial reporting quality by fostering greater interaction among the auditor, management and those charged with governance.

Additional Information

Please note, this section deliberately focuses on **perceived benefits or improvements**. To enhance the richness of input from the survey and to facilitate more effective analysis of responses received, please limit your responses to these aspects. The next section, **Section V**, allows you to share your views on any issues or challenges, or certain specific impacts relating to 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.

Benefits of ISA 540 (Revised)	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			

Benefits of ISA 540 (Revised)	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(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	X	No	
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Input	<p>ISA 540 MAY HAVE IMPROVED AWARENESS AND REPORTING QUALITY</p> <p>Several factors have contributed to improvements in reporting and auditing management’s estimates and related disclosures. As a result, these benefits cannot be attributed solely to ISA 540 (Revised).</p> <p>We have heard that increased audit focus on accounting estimates may have improved the quality of financial reporting in this area.</p> <p>We have also observed better awareness and identification of accounting estimates that fall within the scope of ISA 540 (Revised).</p> <p>Auditors may be placing more focus on understanding controls over management’s estimates, often through walkthrough procedures. However, this has not necessarily led to more reliance on controls or less substantive testing being performed for accounting estimates. This is mainly because many entities do not have controls that are strong enough to support testing of operating effectiveness of controls.</p>
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Section V: Potential Issues or Challenges Relating to ISA 540 (Revised)

A. Scalability and Proportionality

The IAASB acknowledged the importance of a scalable standard for all types of accounting estimates, from those that are relatively simple to those that are complex, and included several elements to address this, including:

- Introducing and emphasizing the concept of a spectrum of inherent risk (paragraph 4). Under the spectrum of inherent risk concept, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale.
- Specific paragraphs in the application material that demonstrate how ISA 540 (Revised) is scalable in the risk assessment (paragraphs A20-A22) and the responses to the assessed risks of material misstatement (paragraph A84).
- Emphasizing in a requirement that the auditor’s further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement at the assertion level and that the auditor’s further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be (paragraph 18).

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

4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
X				

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

Input	<p>SCALABILITY CHALLENGES</p> <p>We have heard mixed views on scalability. Some stakeholders noted that the standard appropriately highlights scalability and works in practice.</p> <p>ISA 540 (Revised) was informed by matters impacting large and complex entities, for example the expected credit loss accounting standard. Many smaller entities do not have estimates of that nature.</p> <p>Many found scalability and proportionality to be a key challenge. These concerns related to scaling the requirements to:</p> <ul style="list-style-type: none"> • smaller entities with simple estimates • less complex estimates for larger entities
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- an estimate that is multiples of materiality for which any misstatement is more likely to be material versus an estimate that is very close to the materiality threshold.

Practitioners from small practices commented that they apply the same approach regardless of the complexity of the estimate and have asked for additional case studies to be provided illustrating the application of principles in real-life scenarios.

There are challenges in applying risk assessment at the assertion level for estimates when the spectrum of risk differs at a more granular level. For example, in a discounted cash flow model, the level of risk may be assessed to be different for the cash flows and the discount rate. However, both the cash flows and discount rate may impact the same assertions.

Stakeholders highlighted the challenge of applying the requirements over the methods, assumptions and data that may impact the same assertion, but for which the inputs have very different risk profiles.

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

Yes	No	Difficult to Determine	No Response
X			

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)?

Input

THE STANDARD SHOULD CLARIFY HOW RISK CAN BE ASSESSED AT A MORE GRANULAR LEVEL

We recommend the standard clarifies that, although risk assessment is performed at the assertion level, the auditor may assess risks in methods, assumptions and data at a more granular level to enable the audit to be risk-based and proportionate to the real risks. For example, risk related to one assertion may be higher in only two of five assumptions in a model. Drilling down to this level may be necessary to understand what is driving the risk and to design appropriate responses to address this risk.

PRACTICAL EXAMPLES WOULD HELP AUDITORS APPLY A PROPORTIONATE, RISK-BASED APPROACH

In addition, we recommend practical case studies be developed that provide practical examples of complex estimates and how the approach can be scaled and proportionate to the risk identified. This could include examples of estimates with differing risk profiles or examples across large and less complex entities.

B. Professional Skepticism

ISA 540 (Revised) includes several key elements that are designed to enhance the auditor’s application of professional skepticism, including:

- Use of stronger language, such as “challenge,” “question,” and “reconsider” to reinforce the importance of exercising professional skepticism (see, for example, paragraphs A60, A95, and A135 of ISA 540 (Revised)).
- A requirement to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (paragraph 18).
- A requirement to “stand back” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence (paragraphs 33–35).

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

Issues or Challenges in Applying ISA 540 (Revised)	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 or observed related to exercising professional skepticism.

Input	<p>Stakeholders queried whether professional scepticism can be meaningfully strengthened through the standard, or whether it mainly develops through training, experience and an enquiring mindset.</p> <p>Regulators have identified improvement in how auditors challenge management and management’s experts. However, they also continue to</p>
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note weaknesses in documenting judgements and obtaining sufficient appropriate audit evidence, particularly when an auditor uses an expert.

We heard that enhanced risk assessment procedures may have strengthened auditors' ability to identify potential indicators of management bias at a detailed level. This has increased the importance of applying the stand-back requirements appropriately to make an overall assessment.

We heard that auditors are generally obtaining both corroborative and contradictory evidence. However, contradictory evidence can be difficult to find, particularly where no active market exists. There was general agreement that additional emphasis on the requirement to take into account all relevant evidence obtained, whether corroborative or contradictory, is particularly helpful relevant in volatile environments.

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?

Yes	No	Difficult to Determine	No Response
	X		

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)?

Input

We do not consider that further standard setting is the best way to enhance professional scepticism.

If further non-authoritative material is developed, such case studies may:

- demonstrate the benefits of assessing corroborative and contradictory evidence particularly when the client is operating in a volatile environment.
- include a practical prompt of what the auditor may consider when a client only obtains valuations every other year and there has been a significant change in economic conditions between valuations.

C. Risk Assessment Procedures

ISA 540 (Revised) includes an enhanced risk assessment specifically tailored to accounting estimates that builds on the risk assessment required by ISA 315 (Revised 2019). The inherent risk factors of estimation uncertainty, complexity and subjectivity play a central role in the approach to the identification and assessment of the risks of material misstatement related to accounting estimates, and the responses to those assessed risks. ISA 540 (Revised) also notes that there may be other inherent risk factors, including susceptibility to misstatement due to management bias or fraud.

18. Indicate the extent to which you have experienced or 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*.

Issues or Challenges in Applying ISA 540 (Revised)	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. **[If the response to question 18(b) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges]** 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.

Input	<p>The linkage between ISA 570 and ISA 315 is not clear. ISA 315 is risk based but ISA 570 requires specific audit procedures. This means that the work performed in line with ISA 570 may not be representative of the assessed risk. This is a key challenge for proportionality.</p> <p>We heard that some stakeholders consider that regulatory findings persist relating to accounting estimates where the auditor does not sufficiently document their understanding of the client’s business as this is core to applying a proportionate, risk-based audit of the entity’s accounting estimates.</p> <p>We also heard that auditors face challenges when entities do not have appropriate controls in place for accounting estimates. This has been highlighted in relation to the use of management’s expert where the entity’s management has limited understanding of the estimate and there are inadequate controls in place.</p>
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18B. [If the response to question 18(c) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] 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.

Statements Related to Retrospective Review	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 or 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.

Input	<p>Some stakeholders emphasised the importance and value of retrospective reviews of estimates.</p> <p>Others however reported the following challenges:</p>
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Input	<ul style="list-style-type: none"> Difficulty in certain circumstances to test the outcome of a previous estimate. That the time and effort to perform a retrospective review is significant and question the confidence it provides in some circumstances. <p>Some stakeholders questioned the benefit of performing a retrospective review when the estimate continues into the current period and is subject to other audit procedures.</p>
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20. In your view, are the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes	No	Difficult to Determine	No Response
		X	

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)?

Input	<p>We recommend that the IAASB work with practitioners and regulators to identify examples where retrospective reviews of an estimate provide high quality audit evidence and where the benefit outweighs the cost. Such discussion could enable clear communication of when and how retrospective reviews promote audit quality.</p>
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D. Responses to the Assessed Risks of Material Misstatement and Overall Evaluation

The auditor’s responses to assessed risks of material misstatement for accounting estimates include one or more of the following testing strategies:

- Obtaining audit evidence from events occurring up to the date of the auditor’s report;
- Testing how management made the accounting estimate; or
- Developing an auditor’s point estimate or range.

For these testing strategies, the IAASB introduced objective-based requirements, focused on methods (including models), assumptions and data. The objective-based requirements allow scalability in the nature, timing and extent of the procedures performed, recognizing that the higher the assessed risks of material misstatement, the more persuasive the audit evidence needs to be.

ISA 540 (Revised) requires the auditor to determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. In making this determination, the auditor is required to evaluate the effect of uncorrected

misstatements on the financial statements. ISA 540 (Revised) provides guidance for that evaluation, consistent with ISA 450, *Evaluation of Misstatements Identified During the Audit*.

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

Issues or Challenges in Applying ISA 540 (Revised)	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		X			

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
when the auditor’s range is wide (in some cases, multiples of materiality for the financial statements as a whole).					

22A. [If the response to question 22(d) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

Issues or Challenges in Applying ISA 540 (Revised)	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. [If the response to question 22(e) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

Issues or Challenges in Applying ISA 540 (Revised)	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 or 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.

Input	<p><i>Determining the most appropriate response to assessed risk</i></p> <p>We have heard that concerns that the documentation of the distinction between testing approaches described in paragraph 18 often becomes blurred (i.e. more than one method is used to test management’s estimate). While the standard acknowledges the possibility in paragraph A81, it does not address the practical challenges that arise.</p> <p>For example, the auditor may plan to test how management made the accounting estimate (18 (b)) but may become aware of weaknesses in management’s approach while performing this testing. Due to the weaknesses identified, the auditor may then develop a “challenger” estimate.</p> <p>This “challenger” estimate may include elements of an auditor’s point estimate. When this occurs, the documentation may become less clear as to</p>
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whether this still constitutes testing of whether management's estimate is reasonable, or whether this moves into developing an auditor's point estimate or range.

The regulator highlighted that auditors may document that they are using a testing approach, but the evidence on file supports a different method. Ensuring this consistency of documentation across the audit file is a key challenge.

Testing how management made the estimate

Auditors may be uncertain about which parts of management's estimate to test and how to document the professional judgement applied in making that determination.

Challenges also arise when auditors cannot access all parts of an estimate. For example, if management uses an expert and parts of the model are protected as proprietary, auditors may not have sufficient access to review them fully. This can make it difficult to determine what constitutes sufficient appropriate audit evidence for those protected elements and may blur the distinction between testing approaches.

With the increased use of technology, additional risks identified with regard to "black box" models are expected to become more common.

Auditors also reported challenges in deciding when to involve an expert to assess the reasonableness of management's estimate. Where management has used an expert, auditors may also find it difficult to source an auditor's expert with the necessary skills in smaller markets such as the New Zealand market.

Developing an auditor's point estimate or range

Developing a point estimate is often challenging and costly and is therefore uncommon in practice.

We heard challenges:

- around the level of precision required when an auditor develops a point estimate or range. This is particularly when evaluating misstatements where there is a high level of uncertainty and the estimate is complex
- about a lack of clarity about what steps to take to resolve differences between an auditor's estimate and management's estimate.
- related to independence in circumstances when there is a difference and a client adjusts their accounting estimate to reflect the auditor's point estimate.

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

Yes	No	Difficult to Determine	No Response
X			

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)?

Input	<p>We have heard that practitioners find the examples provided in the standard too simple. We encourage the use of more realistic case studies, based on more complex estimates encountered in practice.</p> <p>We have heard challenges when management makes material adjustments to their estimate based on an auditor's point estimate. We would encourage application material to address this situation, outlining when necessary and providing practical examples.</p> <p>We also encourage further guidance on how the precision of an auditor's point estimate or range affects the persuasiveness of audit evidence, particularly where estimation uncertainty is high and when evaluating misstatements.</p> <p>Further clarity is also needed on the steps an auditor should take when the auditor's estimate differs from management's estimate.</p> <p>It would be helpful to explain how to consider a material misstatement and whether, and in what circumstances, the matter should be communicated to those charged with governance or whether a scope limitation may need to be considered.</p> <p>Emerging technology may provide opportunity to enhance documentation to ensure consistency across the audit file.</p>
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E. Other Matters – Communications, Specialized Skills or Knowledge and Documentation

<p>ISA 540 (Revised) enhanced the requirements for other aspects of auditing accounting estimates and related disclosures, such as:</p> <ul style="list-style-type: none"> • Communication with TCWG, management or other relevant parties; • Specialized skills or knowledge, including using the work of an auditor's expert; and • Documentation.

26. Indicate the extent to which you have experienced or 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*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Communications					
(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.

<p>Input</p>	<p>AUDITORS FACE PRACTICAL CHALLENGES WHEN USING EXPERTS</p> <p>We identified three main challenges in using an auditor's expert.</p> <ul style="list-style-type: none"> • Auditors can find it difficult to determine when an expert is needed. For example, when management uses a valuation expert, it may be unclear whether the auditor's prior experience is sufficient or whether an auditor's expert is also needed. Paragraph A62 recognises valuation skills as an example of expertise the auditor may not possess. • Auditors may face difficulty selecting an appropriate auditor's expert, particularly where there is divergence in practice or where different methodologies may be acceptable.
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	<ul style="list-style-type: none"> Lack of clarity on the scope of work expected by an auditor’s expert versus the audit team, for example experts often do not test the reliability of the underlying data so it is important that this is covered by the auditor.
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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?

Yes	No	Difficult to Determine	No Response
	X		

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)?

Input	<p>It may be beneficial to include a practical example in a case study to clarify the scope of work expected by an auditor’s expert versus the work to be completed by the audit team. This may be more related to the application of ISA 620.</p> <p>We would encourage further non-authoritative guidance related to paragraphs A61 - A63 in determining the appropriate expert to engage particularly when there is a divergence in practice or areas known to be subject to differing interpretation.</p>
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