



## ISA 540 (Revised) Post-Implementation Survey

You have completed the survey with the following responses. If you are ready to submit your responses press SUBMIT below, or press "BACK" should you wish to revisit any of your responses."

**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) : Hong Kong Institute of Certified Public Accountants
- Name(s) of contact(s) for this submission : Selene Ho
- Job title or role : Deputy Director, Standard Setting
- E-mail address(es) of contact(s) : selene@hkcipa.org.hk

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

- Jurisdictional Standard Setter (JSS) or Other Standard Setter

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

- Asia Pacific

**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. : Local invitations to comment to stakeholders and meetings with working group and panel
- The nature and number (or estimate thereof) of stakeholders with whom you engaged. : 1) Invitations to comment to stakeholders (110) 2) The Institute's Auditing and Assurance Standards Committee (13) 3) The Institute's Small and Medium Practices Committee Technical Issues Working Group (20) 4) The Institute's Audit Evidence and Risk Response Advisory Panel (6)

**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).**

- N/A

**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.**

- Overall, respondents considered that ISA 540 (Revised) has broadly achieved its intended purpose and the IAASB's objectives in developing the revised standard. However, they also noted that the extent of these benefits in practice varies depending on the nature and complexity of the engagement, and that challenges remain in achieving scalable application, particularly in relation to the extent of work required and the related audit documentation in different situations. Additional implementation support and practical guidance would be helpful to promote more consistent and scalable application in practice.

**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?**

- o 3 – Agree
- o **Comments:** It is recommended that the IAASB:
  - enhance the illustrative examples by making them more practical and better aligned with the circumstances auditors encounter in practice, including through more realistic fact patterns for common and complex accounting estimates, numerical illustrations where appropriate, less narrative description, and clearer and more detailed illustrations of the documentation expected to demonstrate compliance with the Standard; and
  - develop additional flowcharts and diagrams to guide auditors in understanding and applying the requirements of the Standard. These visual aids should particularly assist users in navigating key processes and decision points. Consider incorporating these materials within the Standard to enhance their accessibility and ensure they remain available over time.

**8. For each perceived benefit, indicate the extent to which you agree that ISA 540 (Revised) has led to benefits or improvements.**

|                                                                                                                                                                                                | 4 –<br>Strongly<br>Agree | 3 –<br>Agree | 2 –<br>Disagree | 1 – Strongly<br>Disagree | 0 – No<br>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                                                                                    | X                        |              |                 |                          |                    |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 4 –<br>Strongly<br>Agree | 3 –<br>Agree | 2 –<br>Disagree | 1 – Strongly<br>Disagree | 0 – No<br>Response |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------|-----------------|--------------------------|--------------------|
| estimation uncertainty.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                          |              |                 |                          |                    |
| (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                        |              |                 |                          |                    |
| <b>9. Are there any additional benefits or positive outcomes arising from the implementation of ISA 540 (Revised) that you would like to highlight?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                          |              |                 |                          |                    |
| ◦ No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                          |              |                 |                          |                    |
| <b>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.</b>                                                                                                                                                                                                                             |                          |              |                 |                          |                    |
| ◦ 3 – Moderate Issues or Challenges                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |              |                 |                          |                    |
| <b>11. Briefly describe these or any other issues or challenges you observed related to scalability and proportionality.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                          |              |                 |                          |                    |
| ◦ • Some engagement teams are unable to demonstrate scalable, proportionate work scope and audit documentation aligned to the assessed level of audit risk, leading to a similar extent of work and documentation regardless of the risk assessment, resulting in under- or over-auditing.                                                                                                                                                                                                                                                                                                                                                                                       |                          |              |                 |                          |                    |
| ◦ • Although audit procedures are scaled down in practice for simpler accounting estimates, there remains ambiguity regarding the extent of audit documentation needed to be regarded as sufficient for compliance with the Standard, particularly from regulators' perspective. The IAASB's illustrative examples for auditing simple and complex accounting estimates do not clearly demonstrate how the extent of audit procedures and documentation should be scaled. Moreover, these illustrative examples are based on different subject matters (inventory impairment versus property, plant and equipment impairment) which makes "apple to apple" comparison difficult. |                          |              |                 |                          |                    |
| ◦ • The IAASB's illustrative examples for auditing ECL accounting estimates are overly complex and focused solely on the banking and financial institutions industry.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                          |              |                 |                          |                    |
| <b>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?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                          |              |                 |                          |                    |
| ◦ Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                          |              |                 |                          |                    |
| <b>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)?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                          |              |                 |                          |                    |
| ◦ • Develop more practical guidance and/or enhance existing illustrative examples to demonstrate scalable approaches showing how the scope of work and audit documentation for the same accounting estimate vary at different assessed risk levels;                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |              |                 |                          |                    |
| ◦ • Add simpler illustrative examples on auditing ECL accounting estimates for general industries to help broaden the guidance beyond the banking and financial institutions sector; and                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                          |              |                 |                          |                    |
| ◦ • Consider drawing on a similar level of detail to the audit procedures for accounting estimates in the ISA for LCE when developing guidance for small and medium-sized entities or less complex accounting estimates in ISA 540 (Revised), and complementing this with quantitative illustrative examples or case studies.                                                                                                                                                                                                                                                                                                                                                    |                          |              |                 |                          |                    |
| <b>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</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                          |              |                 |                          |                    |

**estimates and related disclosures.**

|                                                                                                                                                        | 4 – Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>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.**

- 14(a) Appropriately challenging management's judgments used in making accounting estimates, particularly when they involve complex or subjective inputs: These situations present heightened challenges, as comparable market data is often insufficient or unavailable and the appropriate extent of challenge expected of auditors remains unclear.
- 14(c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory: It is challenging to weigh supporting versus contradictory audit evidence and determining the appropriate next steps to resolve such inconsistencies. Besides, obtaining all relevant evidence can be difficult in practice. For example, in a property valuation, assumptions are often based on the experience and expertise of management or professional valuers, which makes them difficult to challenge, while other available evidence for further comparison or evaluation may be limited. Even where reasonable efforts have been made, it can still be challenging to demonstrate to regulators that all relevant audit evidence has been 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)?**

- Provide additional illustrative examples and guidance on the extent of challenge auditors should apply to management's accounting estimates in situations when audit evidence is limited or contradictory. This would help reinforce the application of professional skepticism and promote more consistent and robust implementation of the Standard.

**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 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>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                                 |                    |

**18B. Indicate the extent to which you agree with the following statements with respect to reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation.** 4 – Strongly Agree

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 4 –<br>Strongly Agree | 3 –<br>Agree | 2 –<br>Disagree | 1 – Strongly<br>Disagree | 0 – No<br>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            |                 |                          |                    |
| <b>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.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                       |              |                 |                          |                    |
| <ul style="list-style-type: none"> <li>• There may be insufficient information or market data at the audit planning stage to perform an appropriate retrospective review of previous accounting estimates, e.g. for fair value measurements categorised within Level 3 of the fair value hierarchy.</li> <li>• There is limited guidance on how to review previous accounting estimates for situations in which fair value accounting estimates are determined using market approach rather than cash flow projections.</li> <li>• There is currently no IFRS accounting standard requirement for management to perform a retrospective review of previous accounting estimates (e.g. fair value), which makes it more difficult for auditors to carry out such a review.</li> </ul> |                       |              |                 |                          |                    |
| <b>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?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                       |              |                 |                          |                    |
| <ul style="list-style-type: none"> <li>• Yes</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                       |              |                 |                          |                    |
| <b>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)?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                       |              |                 |                          |                    |
| <ul style="list-style-type: none"> <li>• Liaise with and engage the IASB to review and consider whether there are any contradictory requirements in IFRS Accounting Standards regarding the retrospective review of previous accounting estimates; and</li> <li>• Develop additional guidance on performing retrospective reviews of previous accounting estimates in situations where information or data is limited at the audit planning stage, or where the estimates are determined using a market approach rather than cash flow projections.</li> </ul>                                                                                                                                                                                                                       |                       |              |                 |                          |                    |
| <b>22. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to <i>responding to the assessed risks of material misstatement</i>.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                       |              |                 |                          |                    |

### 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

|                                                                                                                                                                                                                                                                                                                                                                         | 4 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>Response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| (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                                       |                                      |                                   |                    |
| <b>Overall Evaluation</b>                                                                                                                                                                                                                                                                                                                                               |                                               |                                         |                                      |                                   |                    |
| (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 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>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 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>Response |
|---------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| (a) Determining when it may be appropriate to develop an auditor's point estimate or range. |                                               |                                         | X                                    |                                   |                    |

|                                                                                                                                                                                                                                                                                          | 4 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>Response |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| (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.**

- • 22(d) Testing how management made the accounting estimate: This is particularly challenging for estimates that involve significant management judgment, such as discounted cash flows and budgeted information, where auditing management's assumptions requires robust challenge and the relevant market data that may not be readily available. In addition, management's experts often provide only limited information to auditors, further exacerbating the practical challenges faced by audit teams.
- 22(e) Developing an auditor's point estimate or range: In practical situation, significant professional judgement is needed (which could cause expectation gap) in determining to what extent audit evidence is considered sufficient and appropriate, quantitatively and qualitatively, to justify the points at both ends of the range are reasonable when the range is multiples of materiality for the financial statements as a whole. When auditing significant valuation estimates, the resulting range may be wide and could exceed materiality, making it difficult to justify its reasonableness. In addition, in practice some auditors may not fully recognise that developing an auditor's point estimate or range still requires a thorough understanding of management's estimate. This expectation gap, together with the need for clear documentation of the model adopted for determining the auditor's point estimate or range, the relevant basis, and the supporting audit evidence, presents further practical challenges in this area.
- 22 (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): This is particularly challenging and the potential implications of identified misstatements for the auditor's report must be evaluated.

**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?**

- o 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)?**

- o Since the issues or challenges arise from practical implementation of the Standard, it is recommended that the IAASB develop illustrative examples or application materials to demonstrate the following aspects:
  - the appropriate extent of audit work performed and audit documentation required when auditing accounting estimates that involve significant management judgment, such as discounted cash flows and budgeted information, or in situations where relevant market data for evaluating management's estimates is not available;
  - the sufficiency and appropriateness of audit evidence to support the reasonableness of both ends of the auditor's estimate range, particularly in situations where the range is wide and may exceed audit materiality; and
  - the evaluation of external information sources and third-party pricing services, including how to assess the reliability of their work and determine the appropriate extent of audit evidence to be obtained, given that auditors are typically provided with limited information.

**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 –<br>Significant<br>Issues or<br>Challenges | 3 – Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No Issues<br>or<br>Challenges | 0 – No<br>Response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| <b>Communication</b>                                                                                                                                                                                                          |                                               |                                         |                                      |                                   |                    |
| (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                                 |                    |
| <b>Specialized Skills or Knowledge, Including Using the Work of an Auditor's Expert</b>                                                                                                                                       |                                               |                                         |                                      |                                   |                    |
| (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                                       |                                      |                                   |                    |
| <b>Documentation</b>                                                                                                                                                                                                          |                                               |                                         |                                      |                                   |                    |
| (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.**

- • 26(c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (revised): Preparing audit documentation that demonstrates a sufficient and appropriate basis for the auditor's conclusions can present practical challenges, particularly for accounting estimates based on management information derived from simple data sources or determined using straightforward methodologies. Besides, while ISA 540 (Revised) includes application guidance relating to information obtained from an "external information source", auditors may still face practical difficulties in determining the appropriate extent of audit work and the level of documentation required in such cases. These challenges are further compounded when external experts are involved, as additional effort is often needed to determine and obtain sufficient working papers or documentation from the experts to support the auditor's evaluation.
- Other issues or challenges related to specialized skills or knowledge (including using the work of an auditor's expert): When experts are engaged, practical challenges may arise in determining the appropriate nature and extent of audit procedures required to evaluate the expert's work and conclusions. This is particularly the case when experts are engaged in areas outside the auditor's expertise, such as complex valuations, where the work is heavily reliant on the expert's specialised knowledge. In practice, auditors may find it difficult to determine how far they are expected to evaluate the expert's assumptions, methods, and conclusions, making it challenging to assess whether sufficient and appropriate audit evidence has been obtained in this aspect.

**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)?**

- Since the issues or challenges arise from practical implementation of the Standard, it is recommended that the IAASB develop:
  - practical guidance on the appropriate level of review of the work of the auditor's expert; and
  - documentation templates as non authoritative guidance to enhance quality of audit documentation, while preserving the principles based nature of the Standard and the exercise of professional judgment.

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