ISQM1, ISA 540R & ISA 315R

Audit Inspection Findings

Jahrestagung MOORE Deutschland

Arbeitskreis: Qualität

Working Group: Quality

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MOORE Audit S.A.

Standards in context

Risk assessment, audit response and estimates are interconnected

ISA 315R → **ISA 330** → **ISA 540R**

Identify and assess risks of material misstatement

- Risk factors
- Assertions
- Inherent risk

Design responses to assessed risks

- Nature
- Timing
- Extent
- Evidence

Challenge accounting estimates

- Methods
- Assumptions
- Data
- Uncertainty

Weak risk assessment often results in weak responses and inadequate challenging.

CSSF Annual Report 2025

Quality Assurance Review findings
from the Luxembourgish Regulator

CSSF Quality Assurance Programme

Scope and inspection focus 2025

Firm-level quality management and selected audit files were reviewed by the CSSF.

8
audit firms reviewed

6
firms auditing PIEs

12,668
audit engagements reported by the selected firms

146
mandates reviewed
(of which 25 were PIEs)

Quality management scope

- Review of firms' quality management systems under ISQM 1 and ISQM 2
- Specific follow-up of one firm postponed from the prior programme
- Programme grounded in annual declarations and risk-based cycles

Inspection intensity

- 10 CSSF inspectors with professional audit experience
- 8,548 hours spent on 2025 quality assurance reviews
- PIE auditors reviewed **at least every three** years

Why it matters

- Controls must work in practice, not only exist in policy
- Firm resources and network dependencies affect engagement quality
- ISQM 1 links policy design to audit-file evidence

Source: CSSF Annual Report 2025

ISQM 1 FINDING THEME 1

Network resources and services

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The CSSF assessed how the firms:

ASSESS	ADAPT	MONITOR	EVALUATE
Risks from compulsory and voluntary network resources	Tailor network resources to the local context	Perform related monitoring and remediation activities	Assess network monitoring and remediation results

CSSF observation:

1) Monitoring and remediation reporting by networks “greatly perfectible”
2) Local firms should analyse network deployed technological resources

Information gaps

- Member firms do not have access to network working papers
- Information granularity varied by network
- Sample size, severity /pervasiveness etc. not explained

Continued supervisory focus in 2026

- Resources located in other shared service centres within audit networks
- Local firms’ oversight of network resources
- The development and use of AI-enabled audit tools

Source: CSSF Annual Report 2025

ISQM1-RELATED FINDING THEME 2

Engagement Quality Reviews – ISQM2

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EQR
should not just be a checklist sign-off

ISQM 2 emphasis: timely performance and **demonstrable** evaluation

CSSF observation: documentation did not consistently show objective challenge of significant judgements and conclusions.

What CSSF observed

- Often appeared as an administrative formality
- Evidence mainly checklist completion and sign-off
- Objective evaluation was not visible in the file

Timing and effort

- Often performed at the end of the engagement
- Typically just before opinion signature
- Minimal hours allocated

Practical implication

- Embed the EQR during the engagement
- Evidence challenge of significant judgements
- Document procedures and conclusions

Source: CSSF Annual Report 2025

CSSF — main observations on audit files

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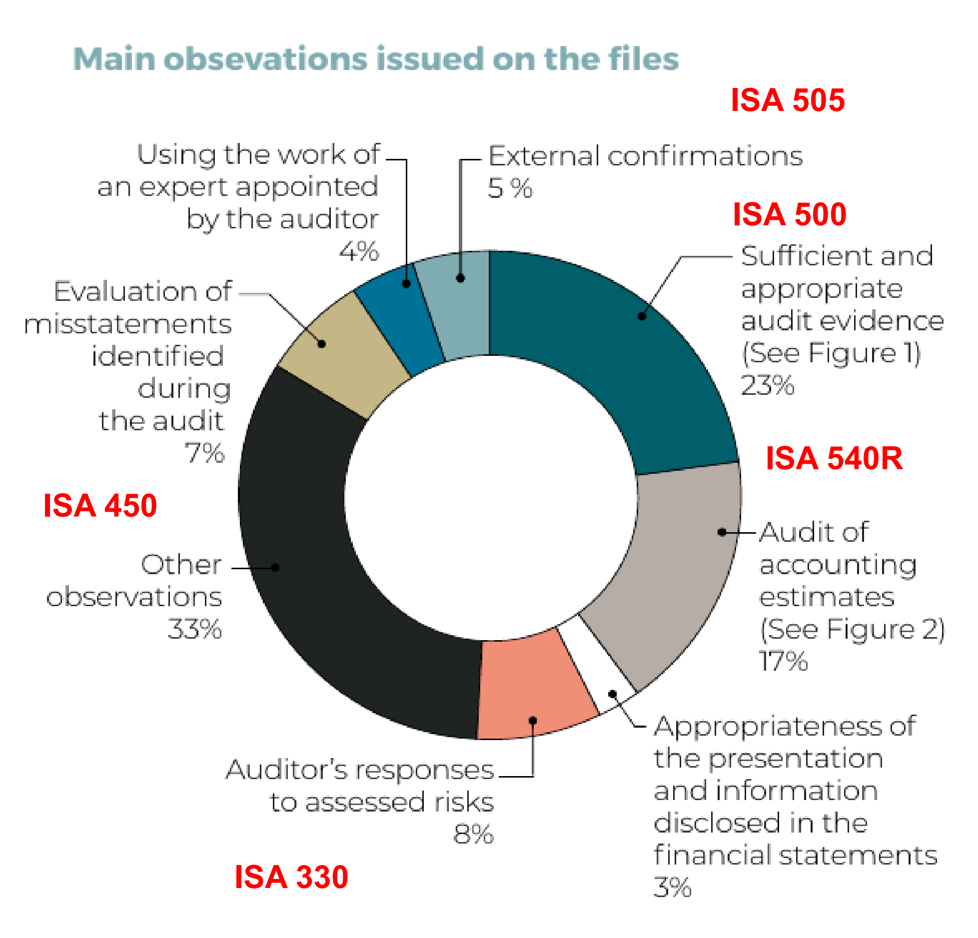

23% Sufficient and appropriate audit evidence

17% Audit of accounting estimates

8% Auditor responses to assessed risks

Key Observations

- CSSF states that audit evidence and accounting estimates were among the topics subject to most observations in 2025.
- Weaknesses in responses to assessed risks included insufficient or inappropriate substantive procedures / controls tests.
- Estimate work must **link clearly to assessed risk**, tailored procedures and sufficient appropriate evidence.

MOORE Toolkit

ISA 540R

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Source: CSSF Annual Report 2025

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CSSF - ISA 540R findings

Accounting estimates

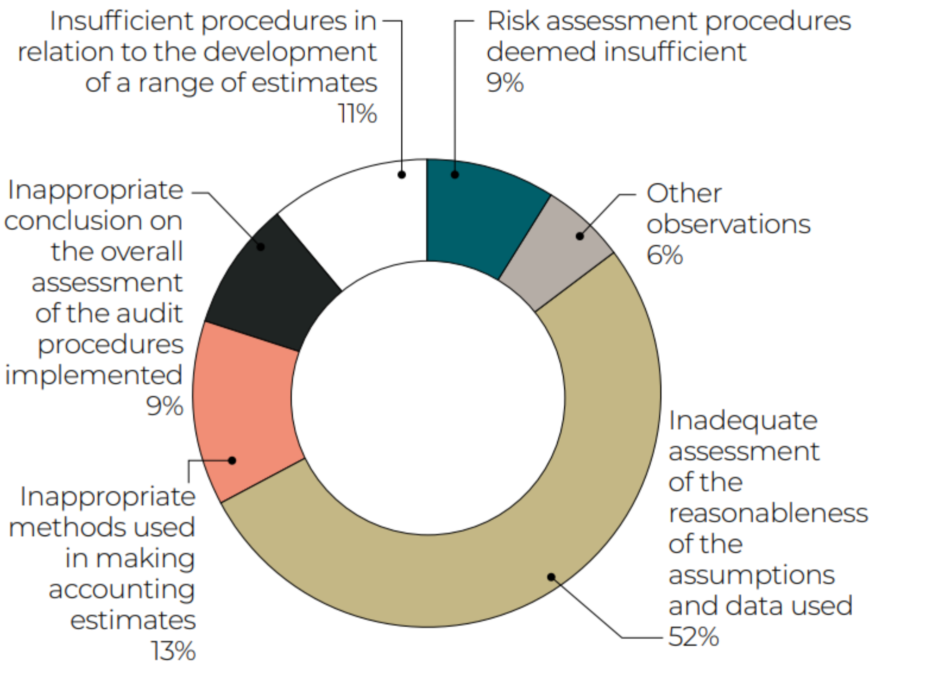
17%

CSSF message:

Stronger challenge of management assumptions, data and valuation methods with robust documentation of ranges.

Share of main observations on audit files

Figure 2: Audit of accounting estimates (AE)



Source: CSSF Annual Report 2025

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CSSF - ISA 540R findings

17%

Accounting estimates

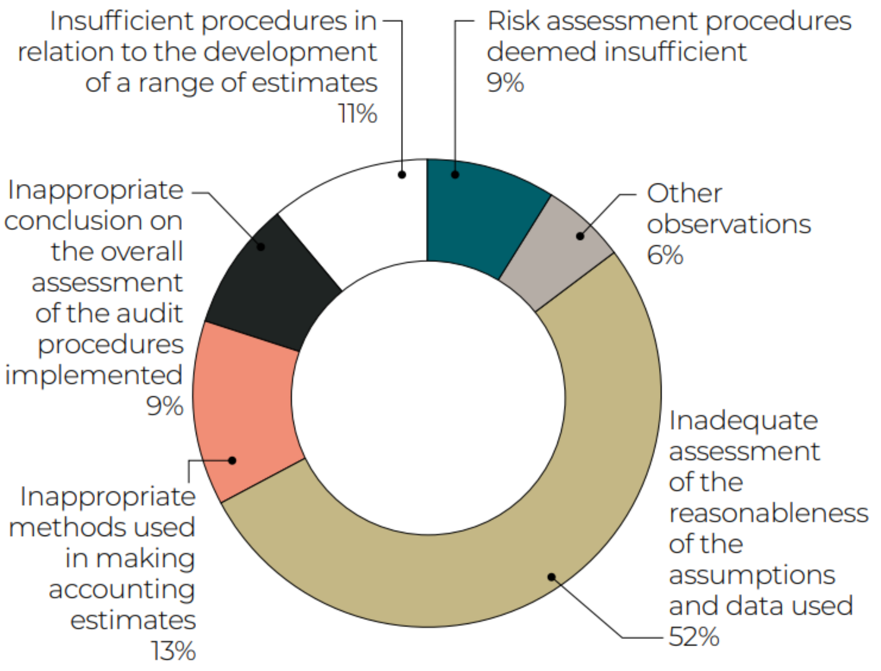
Share of main observations on audit files

CSSF message:

Stronger challenge of management assumptions, data and valuation methods with robust documentation of ranges.

Accounting estimates – sub-findings

Figure 2: Audit of accounting estimates (AE)



Source: CSSF Annual Report 2025

CSSF - ISA 540R findings

Material weaknesses identified in accounting estimate testing

Methods, assumptions and data

Reasonableness of assumptions and data not sufficiently assessed

Excessive reliance on management analysis and projections

Contradictory evidence and market information not fully considered

Estimation methods not analysed in sufficient depth

Independent estimate ranges limited or poorly documented

Accuracy, arithmetic consistency and uncertainty disclosures require stronger evaluation

Source: CSSF Annual Report 2025

MOORE Toolkit ISA 540R

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ISA 540 Toolkit supports auditing of accounting estimates, including fair value estimates and related disclosures.

The toolkit comprises three integrated worksheets:

1. Entity-Level Risk Assessment
2. Estimate Risk Assessment and Planning
3. Estimate Risk Response

Link to Toolkit ISA 540 (Revised) Toolkit

ISA 540 (Revised) Toolkit Introduction and Walkthrough

Estimate Risk Assessment & Planning worksheet

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Risk Assessment Procedures and Related Activities specific to this accounting estimate

Requirement	Guidance	Audit Response	W/P Reference
Document the financial reporting requirements relevant to this estimate	Para. A24-25		
Provide an overview of the accounting disclosures that will be included in the financial statements for this accounting estimate	Para. A27		
Are there any regulatory factors that are relevant to the accounting estimate?	Para. A26		
Other than those detailed in the Entity's Internal Control review, describe any additional, specific controls management employ for the preparation of this estimate.	Para. A28-54		
Review the outcome or re-estimation of this estimate made in the prior year and record the conclusion here. Use this review to assist in assessing the RMM in the current period.	Para. A55-60		
Does the audit team require specialist skills or knowledge in order to undertake the risk assessment related	Para. A61-63		

Entity Level Risk Assessment Worksheet

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Obtain an understanding of the entity and it's environment			
Requirement	**Guidance**	**Audit Response**	**W/P Reference**
Were there any entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognized or disclosed in the financial statements?	Para. A23		
Summarise the requirements of the applicable financial reporting framework that gives rise to any accounting estimates applicable to the entity.	Para. A24-25		
Document any regulatory factors relevant to the entity's accounting estimates.	Para. A26		
Based on the auditor's understanding of the matters above, what are the nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements?	Para. A27		

Accounting estimates and related disclosures identified for review

List all estimates and related disclosures identified for review	Reference

Guidance

As per ISA 540 Para A1. Examples of Accounting estimates related to classes of transactions, account balances and disclosures include:
- Inventory obsolescence
- Depreciation of property and equipment
- Valuation of infrastructure assets
- Valuation of financial instruments
- Outcome of pending litigation
- Provision for expected credit losses
- Valuation of insurance contract liabilities
- Warranty obligations
- Employee retirement benefits liabilities
- Share-based payments
- Fair value of assets or liabilities acquired in a business combination, including the determination of goodwill and intangible assets
- Impairment of long-lived assets or property or equipment held for disposal
- Non-monetary exchanges of assets or liabilities between independent parties
- Revenue recognized for long-term contracts

Estimate Risk Response Worksheet

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Accounting Estimates - Responses to the Assessed Risks of Material Misstatement **Reviewed by:** [#Reviewer#]

Obtaining Audit Evidence from Events Occurring up to the Date of the Auditor's Report (Para. 21)
(Section will collapse if not applicable)

☐ Check box if not applicable

Requirement	Guidance	Audit Response	W/P Reference
Detail the work performed to obtain audit evidence from events up to the date of the auditor's report.	Para. A91-A93		
Will the audit evidence obtained from events occurring up to the date of the auditor's report be sufficient and appropriate to address the risk of material misstatement assessed at the planning stage? If not, further testing will need to be performed and documented below.			

Testing How Management Made the Accounting Estimate (Para. 22 - 27)
(Section will collapse if not applicable)

☐ Check box if not applicable

Detail the following; - The selection and application of methods, assumptions and data used by management in making the accounting estimate; and - How management selected the point estimate and determined disclosures about estimation uncertainty			

Methods Used (Para. 23)

Estimate - Risk Response | Audit Evidence Up to Aud Report | How Management Made Estimates | Methods Used | Significant Assumptions & Data | Evaluate Managements Selections | Audit Conclusions | ISA 540 3

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CSSF - ISA 315R / 330 findings in detail

8%

Responses to assessed risks

Key Observations

- Substantive procedures / control tests not always responsive to identified risks
- Audit procedures sometimes limited or insufficiently tailored to assertions
- Entity-produced information used without enough reliability testing
- Professional scepticism and evidence evaluation need strengthening

CSSF message: risk identification must be granular enough to drive a clearly traceable ISA 330 response.

Source: CSSF Annual Report 2025

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MOORE Global ISA 315 R Toolkit

Links to the MOORE GLOBAL resources

- ISA 315 (Revised) Homepage
- MOORE Global - ISA 315 Toolkit
- Walkthrough Video on the Toolkit
- Illustrated Examples

ISA 315 REVISED IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT REVISED 2019

Go back to Tab Understanding of the entity

The Entity and its environment

The Entity's Organizational structure, ownership and governance, and business model (Ref: Para.19(a)(i))

A56 An understanding of the entity's organizational structure and ownership may enable the auditor to understand such matters as:

-The complexity of the entity's structure.
Example: The entity may be a single entity or the entity's structure may include subsidiaries, divisions or other components in multiple locations. Further, the legal structure may be different from the operating structure. Complex structures often introduce factors that may give rise to increased susceptibility to risks of material misstatement. Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately and whether adequate disclosure of such issues in the financial statements has been made.

-The ownership, and relationships between owners and other people or entities, including related parties. This understanding may assist in determining whether related party transactions have been appropriately identified, accounted for, and adequately disclosed in the financial statements

-The distinction between the owners, those charged with governance and management.
Example:In less complex entities, owners of the entity may be involved in managing the entity, therefore there is little or no distinction. In contrast, such as in some listed entities, there may be a clear distinction between management, the owners of the entity, and those charged with governance

- The structure and complexity of the entity's IT environment
Example:An entity may:
• Have multiple legacy IT systems in diverse businesses that are not well integrated resulting in a complex IT environment.
• Be using external or internal service providers for aspects of its IT environment (e.g., outsourcing the hosting of its IT environment to a third party or using a shared service centre for central management of IT processes in a group).

A60 Matters that may be relevant for the auditor to consider in obtaining an understanding of the governance of the entity include:
Whether any or all of those charged with governance are involved in managing the entity.
• The existence (and separation) of a non-executive Board, if any, from executive management.
• Whether those charged with governance hold positions that are an integral part of the entity's legal structure, for example as directors.
• The existence of sub-groups of those charged with governance, such as an audit committee, and the responsibilities of such a group.
• The responsibilities of those charged with governance for oversight of financial reporting, including approval of the financial statements.

A62 Not all aspects of the business model are relevant to the auditor's understanding. Business risks are broader than the risks of material misstatement of the financial statements, although business risks include the latter. The auditor does not have a responsibility to understand or identify all business risks because not all business risks give rise to risks of material misstatement.

A63 Business risks increasing the susceptibility to risks of material misstatement may arise from:
Inappropriate objectives or strategies, ineffective execution of strategies, or change or complexity.
• A failure to recognize the need for change may also give rise to business risk, for example, from:

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CEAOB Inspections

Findings from EU Financial Institutions Audit

CEAOB Inspection - financial institutions

Banking and insurance companies, findings 2018–2022

154 Banking findings

194 Insurance findings

19 Jurisdictions

8 Networks

Key audit risks

- Valuation of loan book and other banking-book positions.
- Other financial assets, particularly derivatives and illiquid financial instruments.
- Complex accounting rules, including IFRS 9.
- Fraud and related-party transactions.
- IT systems crucial to business processes.

ISA 540R

- Audits of banks and insurers contain many accounting estimates.
- Most common ISA 540 theme: insufficient response to assessed risk
- Findings point to inadequate and/or insufficient procedures.
- Professional skepticism and judgement are needed where management bias may exist.
- Disclosure of estimate risk and derivation matters to stakeholders.

ISA 315R/ISA 330

- Most tracked findings linked to inadequate responses to assessed risk.
- Risk-assessment and response findings often relate to IT systems.
- Audit response must address business processes and technology dependency.
- FI audits require a clear chain from systems and risks to evidence.
- Weak risk assessment can cascade into weak substantive procedures.

Source: CEAOB Inspections Sub-Group summary annex: Financial Institutions Audit, Banking & Insurance companies

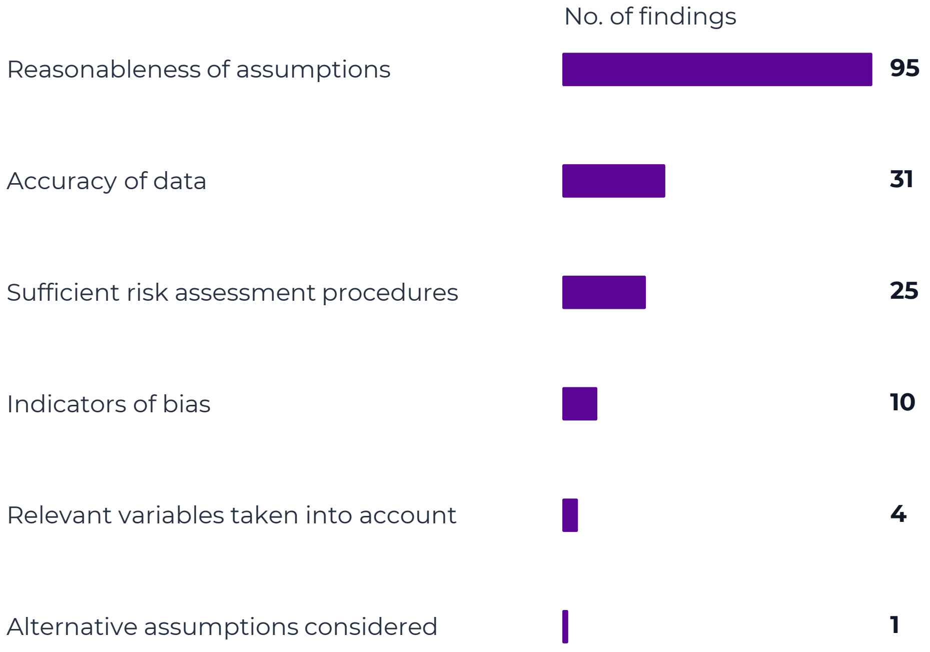
IFIAR 2025 Survey

Inspection findings for
Global Public Policy Committee networks

IFIAR — ISA 540 R

Estimate-related sub-findings

Accounting estimates including fair value measurement



Key Observations

- The most frequent estimate sub-finding is failure to assess the reasonableness of assumptions, including contrary or inconsistent evidence.
- Testing of the accuracy of data remains a recurrent weakness, especially where management-produced data feeds the model.
- Risk-assessment procedures for estimates are themselves a reported sub-finding, reinforcing ISA 315R/540R connection.
- Bias indicators and alternative assumptions are less frequent but high-inspection-sensitivity areas.

Source: IFIAR 2025 Survey of Inspection Findings, Appendix B

IFIAR -ISA 315R

Risk Assessment Findings

Listed PIE audits

- Risk assessment finding frequency where inspected**: 6%.**
- 44 listed PIE audits had at least one risk assessment finding in 2025.
- Total risk assessment findings increased to 53 in 2025.
- Risk assessment may also be embedded in other labels, including estimates, controls, sampling and evidence
- Engagement teams should avoid treating the 6% figure as a low-risk message.

SIFI* audits

- Risk assessment finding frequency where inspected: 14%.
- 37 SIFI audits were inspected for risk assessment in 2025.
- 9 SIFI risk assessment findings were reported in 2025.
- SIFIs involve extensive judgement and estimates, creating particular audit considerations.
- Risk assessment should be granular enough to drive controls, data and substantive procedures.

* Systematically Important Financial Institution

Overall: risk assessment failures often show up later as weak estimate challenge, weak controls work or weak evidence.

Source: IFIAR 2025 Survey of Inspection Findings, Appendix B

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Moore Global – QAR 2025

Common findings from Global Regulators

ISA 540R & ISA 315 recurring findings

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ISA 540R — estimates and judgements

- Estimates and judgements are consistently identified as a common deficiency area across regulators.
- Inadequate evaluation and challenge of key assumptions in impairments, valuations and provisions.
- Professional-scepticism gaps in complex judgmental areas, especially ECL calculations.
- Poor supervision of third-party specialists' work relating to estimates.
- Audit files do not always demonstrate sufficient skepticism.
- Insufficient testing of management methodologies, assumptions and data inputs.
- Specific weaknesses in complex financial instruments and investment property valuations.

ISA 315R — risk assessment

- Risk assessment deficiencies are foundation-level weaknesses affecting the entire audit approach.
- Inadequate identification of client-specific business risks and likely areas of material misstatement.
- Insufficient justification for low-risk classifications, resulting in inadequate audit evidence.
- Poor consideration of complex IT systems in risk assessment and planning.
- Insufficient evidence of partner review and supervision during the audit.
- Inadequate consideration of resource needs and capacity constraints.
- Walkthroughs not completed at planning stage, or not performed at all.

Source: Moore Global, Common Quality Findings from Global Regulators, October 2025, pp. 10–11

Sources

CSSF Annual Report 2025	https://www.cssf.lu/en/Document/annual-report-2025/
CEAOB Financial Audit Inspection	https://finance.ec.europa.eu/system/files/2023-06/230601-ceaob-subgroups-inspections-summary-annex_en.pdf
IFIAR 2025 Survey	https://www.ifiar.org/?wpdmdl=19599
Moore Global Common Quality Findings From Global Regulators	Global Intranet - MOORE
Moore Global Statement of Professional Practice	https://intranet.moore-global.com/document-library/firm-portal-documents/statement-of-professional-practice
MOORE Templates_ Webinar	Global Intranet - MOORE