

### Post-Implementation Review of ISA 540 (Revised)<sup>1</sup> – Cover Note

#### Objective of the IAASB Discussion

The objective of this agenda item is to obtain the Board's input on:

- (a) The proposed Post-Implementation Review of ISA 540 (Revised) (PIR-ISA 540 (Revised)) plan, as presented in **Agenda Item 4-A**; and
- (b) An analysis of the key findings from the Project Team's initial information-gathering activities.

#### Introduction

##### Background

1. In June 2018, the IAASB approved ISA 540 (Revised) as a [final standard](#).<sup>2</sup> 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 parenthesis):
  - (a) Introduced the concept of inherent risk factors, including not only estimation uncertainty but also complexity, subjectivity and others (paragraphs 2, 4, 18).
  - (b) Enhanced risk assessment procedures relating to obtaining an understanding of the entity and its environment, including the entity's 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)<sup>3</sup> and ISA 330<sup>4</sup> (paragraphs 19 and 20).

<sup>1</sup> International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>2</sup> Note that all references to paragraphs and other content of ISA 540 (Revised) is to the latest version of the standard in the [2023-2024 IAASB Handbook](#).

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

- (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 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 the following non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised):
- [Basis for Conclusions](#);
  - [At a Glance](#);
  - [Presentations](#);
  - [Flowcharts and Diagram](#);
  - [Video Panel Discussions](#);
  - [Audit Client Briefing](#);
  - [Simple and Complex Illustrative Examples](#); and
  - [Expected Credit Losses Illustrative Examples](#).
5. As highlighted in the [Strategy and Work Plan for 2024-2027](#), PIRs are considered after a significant period of global adoption and implementation of a standard (i.e., 3-5 years)<sup>5</sup> and balancing with other work plan priorities and capacity considerations. The IAASB is commencing work for its PIR on ISA 540 (Revised) in 2025. Audits with December 2020 to 2024 year-ends would have been completed using ISA 540 (Revised).

## Materials Presented

6. This paper sets out the following:
- **Part A:** The development of the proposed PIR-ISA 540 (Revised) plan
  - **Part B:** Key findings from the initial information-gathering activities.
  - **Part C:** Way forward.

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<sup>5</sup> The value of a PIR is enhanced if sufficient time is allowed for a new or revised standard to be properly embedded in practice and for internal and external monitoring purposes, in the context of global adoption across jurisdictions.

7. This agenda item includes the following appendices and other agenda items:

<b>Appendix 1</b>	Project Team Members and Activities
<b>Agenda Item 4-A</b>	Proposed PIR-ISA 540 (Revised) plan

### Liaison with IESBA

8. In July 2025, the Project Team, IESBA Staff assigned to PIRs (for non-compliance with laws and regulations (NOCLAR) and the restructured Code) and the IAASB and IESBA Program and Senior Directors held a hybrid meeting to discuss the objective and approach to PIRs. The purpose of this coordination is to ensure alignment in the approach to PIRs by the standard setting boards (SSBs) under the International Foundation for Ethics and Audit (IFEA) (see also **Part A**). The IAASB and IESBA PIR staff teams plan to develop an overarching framework for PIRs for the SSBs alongside undertaking the PIRs that are currently on both Boards' work plans. This will be presented and discussed by both Boards in due course.

### Part A: The Development of the Proposed PIR-ISA 540 (Revised) Plan

9. When developing the proposed PIR-ISA 540 (Revised) plan, the Project Team considered:
- (a) The activities undertaken by the IAASB in previous PIRs. For this purpose, the Project Team performed a review of documents and reports from the IAASB's PIR of the [Auditor Reporting Standards](#) that was completed in September 2021.
  - (b) The [Integrated Due Process and Public Interest Framework \(PIF\) Operating Procedures](#) (July 2025) (Due Process). Since ISA 540 (Revised) was approved prior to this Due Process, the following information in the working procedures section of the Due Process is applicable to the PIR-ISA 540 (Revised) (see paragraphs A42-A44):
    - (i) Factors to consider when assessing the need to undertake a PIR and the priority for undertaking a PIR. As mentioned in paragraph 5, the PIR-ISA 540 (Revised) was agreed at the time that the IAASB Strategy and Work Plan for 2024-2027 was approved.
    - (ii) Scope and form of a PIR, including examples of activities that may be included in the PIR (see paragraph 10 below).
  - (c) The [IAASB Framework for Activities](#). The information-gathering and research activities within the Framework for Activities include the objective and activities of PIRs.
  - (d) Publicly available documents of the International Accounting Standards Board (IASB) in respect of a PIR, including the IASB and IFRS Interpretations Committee [Due Process Handbook](#) and the [IASB PIR webpage](#). Under the IASB process, each PIR has two phases:
    - (i) Phase 1: identifies matters to be examined, drawing on discussions with the Interpretations Committee, the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the PIR.
    - (ii) Phase 2: considers the comments it has received from public consultation along with information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

10. **Agenda Item 4-A** presents the proposed PIR plan, which reflects the consideration of the key points as described in paragraph 9. As explained in **Agenda Item 4-A**, the Project Team proposes a two-phase approach to the PIR:
- (a) Phase 1 – Initial Information Gathering. During this phase the Project Team aims to obtain an understanding of the current landscape sufficient to identify key implementation areas to be explored through public consultation. These initial activities are essential to inform the development of more focused and effective consultation, outreach and other information-gathering activities that will be carried out in Phase 2.
  - (b) Phase 2 – Public Consultation and Development of Recommendations. The IAASB conducts a public consultation through a stakeholder survey to solicit feedback across a broad range of stakeholder constituencies and geographical representation. The IAASB will seek to obtain insights into implementation challenges or questions that have been identified or raised relating to ISA 540 (Revised). This can relate to the key implementation areas identified in Phase 1 or additional matters that stakeholders may wish to highlight. The Project Team will consider all comments received along with the information it will gather from additional targeted outreach or other information-gathering activities to develop views and recommendations for the Board's consideration.
11. The final PIR plan for ISA 540 (Revised) will be published on the project webpage.

**Matters for IAASB Consideration:**

1. The Board is asked for its views on the proposed PIR-ISA 540 (Revised) plan set out in **Agenda Item 4-A** and whether other matters or activities should be included in the plan.

## **Part B: Key Findings from Initial Information-Gathering Activities to Date**

### **Request for Information**

12. In July 2025, the Project Team initiated a request for information (RFI) from the IAASB Jurisdictional Standard Setters (JSS) Liaison Group (IAASB-JSS),<sup>6</sup> including six high-level questions that aimed to:
- (a) Obtain an understanding of the current adoption and implementation status of ISA 540 (Revised);
  - (b) Gather information on jurisdictional activities and developments related to the implementation of ISA 540 (Revised); and
  - (c) Gain insights into the benefits and potential areas of challenge with regard to the application of ISA 540 (Revised).
13. The result of this RFI will directly inform the development of focused questions for the public consultation survey, which is targeted for approval by the Board in December 2025. All stakeholders, including the IAASB-JSS, will be invited to complete the public consultation survey.

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<sup>6</sup> The IAASB-JSS Liaison Group comprise of JSS from 18 countries or jurisdictions as indicated on the [IAASB website](#) under "IAASB Jurisdictional Auditing and Assurance Standard Setters Liaison Group".

14. 12 JSS submissions were received (from 15 countries), all of which indicated that they have adopted and implemented ISA 540 (Revised) with no or limited modifications. Jurisdictions that have made some minor modifications indicated that these were made to address translation concerns or for legal requirements purposes. No jurisdictions noted any deletion of requirements or application material.
15. In addition, no JSS indicated any significant developments relating to auditing of accounting estimates. However, some JSS provided links to publications of interest, such as guidance, examples, and other non-authoritative materials.

*Benefits or Improvements from ISA 540 (Revised)*

16. The RFI asked for the JSS's views on the major benefits or improvements brought by implementing ISA 540 (Revised). JSS reported the following significant improvements resulting from the revised standard:
  - (a) *Enhanced risk assessment procedures.* The revised risk assessment procedures encourage a deeper understanding of accounting estimates, which in turn strengthens the auditor's risk identification and assessment.
  - (b) *Focused audit response.* The objectives-based work effort requirements enable the auditor to tailor their testing strategies specifically to the methods, assumptions and data used in developing estimates. In addition, the clarified requirements to evaluate methods, assumptions and data in auditing accounting estimates results in additional consistency in the approach to auditing estimates.
  - (c) *Overall evaluation based on audit procedures performed.* The stand-back requirement and prompt for the auditor to consider both corroborative and contradictory evidence promotes the application of professional skepticism.
17. In summary, the feedback from the RFI indicates that ISA 540 (Revised) has moved the audit of accounting estimates into a more robust, risk-focused space. The emphasis on understanding the underlying estimation process, coupled with practical tools, has improved both clarity and audit effectiveness. In addition, JSS noted that the enhanced audits of accounting estimates may be contributing to better disclosures in financial statements.

*Potential Areas of Challenge*

18. JSS were also asked to identify potential areas of challenge for auditors in applying ISA 540 (Revised). JSS noted the following challenges:
  - (a) *Developing a point estimate.* In practice, auditors are generally reluctant to develop a point estimate, with concerns about the added value of doing so or the expected level of precision. Given the high levels of estimation uncertainty associated with some accounting estimates, the work effort may not be proportionate to the risk or to obtain evidence to support a wide range of possible outcomes. JSS have also noted confusion by auditors about when it may be appropriate to develop a point estimate or range. In addition, when the auditor's point estimate does not match the entity's estimate, there is a perceived lack of clarity on what steps should be taken to resolve the difference.

- (b) *Performing an appropriate risk assessment.* Although the revisions strengthen the risk assessment for estimates, JSS have reported challenges in applying the risk assessment approach. In particular, the following concerns were noted:
- (i) Auditors may be assessing the risk of material misstatement at a lower level.
  - (ii) Auditors find it challenging to identify relevant controls related to an estimate and evaluate their design and implementation, which is required when a risk of material misstatement has been assessed as significant.
  - (iii) The linkage between ISA 315 (Revised 2019) and ISA 540 (Revised) should be clarified, as the lack of differentiation between the two standards increases complexity and susceptibility to errors in documentation. Auditors reported that managing two sets of documentation for inherent risks can lead to doubling the risk assessment procedures in practice, which is viewed as leading to redundant documentation in practice.
- (c) *Retrospective reviews.* These reviews can be difficult to execute effectively when the timing of the estimate and the availability of relevant data are misaligned. Some auditors also question the benefit of such procedures during the planning phase and prefer to do so during the year-end audit.
- (d) *Use of experts.* Auditors may struggle to determine whether they have the appropriate skills or knowledge needed to audit certain accounting estimates, or when it is appropriate to use an auditor's expert. In addition, there is a lack of clarity on the responsibilities between the audit team and experts. For example, experts often do not test the reliability of the underlying data, so it is important that the auditor covers this. JSS also noted that it may be difficult for auditors to apply the standard due to the inability to gain access to test and document complex models used by management's experts, including where a management's expert may utilize their own proprietary model, which may involve their own intellectual property and protected IT systems.
19. JSS have also noted that additional guidance, outside of the standard, may be useful for audit firms to further illustrate how the standard can be applied in a proportionate manner.

#### *Inspection Findings*

20. The RFI asked the JSS to list the key inspection findings and observations relating to the audit of accounting estimates in their jurisdiction. While accounting estimates have been a common area for deficiencies, improvements in auditing estimates have been seen in many jurisdictions. However, regulators continue to report inspection findings related to the sufficiency of audit procedures, including in relation to the development of auditor point estimates or ranges to support management's estimates. Regulators have also noted that it is important for auditors to adequately assess and challenge the reasonableness of management's estimates and assumptions. It is important for auditors to exercise professional skepticism, including the consideration of the risk of management bias, and to appropriately document how they challenged management's assumptions.

#### **Basis for Conclusions**

21. The Project Team also reviewed the [Basis for Conclusions](#) published with ISA 540 (Revised) to identify key areas that were the subject of significant comments or concerns from respondents to the exposure draft and IAASB deliberations. The following areas were noted:

- (a) *Scalability*. Many respondents to the exposure draft of the proposed ISA 540 commented on the importance of the standard being scalable. In particular, the standard should not be complex or confusing, documentation should not be too substantial, and the risk assessment requirements should not be too onerous for simple accounting estimates. In response, the IAASB introduced different concepts and paragraphs to introduce scalability, such as an emphasis on the inherent risk concept, highlighting that the nature, timing and extent of the risk assessment and further audit procedures will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement. Specific paragraphs were also added to demonstrate how ISA 540 (Revised) is scalable.
- (b) *Risk assessment*. Respondents noted the importance of clarity surrounding the concept of inherent risk factors and the alignment with the revisions to ISA 315 (Revised). Given that the revisions to ISA 540 and ISA 315 (Revised) were undertaken around the same time,<sup>7</sup> the aim of the IAASB was to make sure that the two standards were aligned to facilitate coherence and consistency in application.
- (c) *Work effort*. Respondents variously noted that the work effort requirements included in the exposure draft may be difficult to apply in practice, may lead to inconsistencies in application and interpretation, and may result in less professional judgment and professional skepticism being exercised. The IAASB further clarified and addressed the concerns raised by respondents by enhancing the requirements and application material in the final standard.

**Matters for IAASB Consideration:**

- 2. The Board is asked for its views on whether they are aware of benefits or implementation challenges or questions related to ISA 540 (Revised), other than those set out in **Part B**, that the Project Team should consider in developing the public consultation survey.

## Part C – Way Forward

- 22. Depending on the nature and extent of feedback received during the September 2025 IAASB meeting, the PIR-ISA 540 (Revised) plan can be finalized during this meeting, subject to addressing the Board's comments. Alternatively, an updated version can be circulated offline after the September 2025 meeting, or presented for the Board's clearance at the December 2025 IAASB meeting.
- 23. The Project Team will continue with other information-gathering activities in Phase 1 in accordance with paragraph 10 of the proposed PIR-ISA 540 (Revised) plan in **Agenda Item 4-A**. In addition, the Project Team will develop a draft of the public consultation survey for the Board's review and input at the December 2025 IAASB meeting, with a goal of issuing the survey in January 2026 for a 90-day consultation period.

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<sup>7</sup> During the time that ISA 540 (Revised) was being finalized, the Board was developing the exposure draft (ED) to revise ISA 315 (Revised) (ED-315). ISA 540 (Revised) and ED-315 were both approved at the June 2018 IAASB meeting.

## Appendix 1

### Project Team Members and Activities

#### Project Team Members

1. The Project Team consists of the following members:
  - Isabelle Raiche (IAASB Staff)
  - Dan Montgomery (Senior Consultant to the IAASB)
2. Information about the project can be found [here](#).
3. The Project Team's activities in Q3 2025 are as reflected in the materials for **Agenda Item 4**.