

Post-Implementation Review of ISA 540 (Revised)¹ – Issues Paper

Objective of the IAASB Discussion

The objective of this agenda item is to:

- (a) Provide the Board with an analysis of the key findings from the Project Team's initial information gathering activities; and
- (b) Approve the proposed public consultation survey for the Post-Implementation Review of ISA 540 (Revised) (PIR-ISA 540 (Revised)), as presented in **Agenda Item 4-A**.

Request for Board Comments in Advance of Meeting

Prior to the December 2025 meeting, Board members are requested to communicate significant content or editorial matters in the proposed public consultation survey to the Project Team by Thursday, December 4, 2025, close of business. This is to assist the Project Team in providing a final turnaround of the document by 17:30 on Wednesday, December 10, 2025, for Board approval on Thursday, December 11, 2025. All significant matters should still be raised and discussed on public record during the Board plenary session.

Approach to the Board Discussion

The Project Team will:

- Present the overview of the findings from the initial information gathering activities included in **Part A** of this paper and ask the Board for reflection on the key findings; and
- Walk through the proposed public consultation survey set out in **Agenda Item 4-A** and the relevant "Matters for IAASB Consideration" included in **Part B** of this paper.

Introduction

Background

1. In September 2025, The Project Team (see **Appendix 1**) presented the proposed PIR-ISA 540 (Revised) Plan. The Board agreed with the proposed plan as presented, subject to clarifications to the objectives and targeted outreach activities. Subsequently, the Project Team circulated an updated PIR-ISA 540 (Revised) Plan for clearance. The plan has been finalized and posted on the [PIR-ISA 540 \(Revised\) webpage](#).
2. Since then, the Project Team completed the first phase of the PIR-ISA 540 (Revised) Plan. The Project Team carried out information gathering activities to gather information on the current adoption and implementation status of ISA 540 (Revised), the activities and developments related to the implementation of ISA 540 (Revised) and gain insights into the benefits and potential key areas of challenge related to ISA 540 (Revised).

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

3. Based on the insights obtained in the first phase of the PIR-ISA 540 (Revised), the Project Team has developed a proposed public consultation survey aiming to gain a deeper understanding of perceived benefits and implementation challenges relating to ISA 540 (Revised), across a broad range of stakeholder constituencies and geographies.

Materials Presented

4. This paper sets out the following:
- **Part A:** Key findings from initial information-gathering activities.
 - **Part B:** The development of the proposed public consultation survey.
 - **Part C:** Way forward.
5. This agenda item includes the following appendices and other agenda items:

Appendix 1	Project Team Members and Activities
Appendix 2	Questions to the Forum of Firms
Appendix 3	Recent Audit Inspection Reports
Agenda Item 4-A	Proposed Public Consultation Survey
Agenda Item 4-B	PIR-ISA 540 (Revised) Plan (For Reference)

Liaison with IESBA

6. In October 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 virtual meeting to discuss comments received during the respective Board's plenary session from September 2025. 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).²

Part A: Key Findings from Initial Information-Gathering Activities

7. In September 2025, the Project Team presented its key findings on the initial information-gathering activities completed up to that date (see Agenda Item 4 for the September meeting). Since the discussion at the September meeting, the Project Team completed the following information gathering activities, as part of the first phase of the PIR-ISA 540 (Revised) Plan:
- (a) Targeted outreach with auditing firms through a session at a Forum of Firms (FoF) meeting;

² As noted in Agenda Item 4 of the September 2025 IAASB meeting, 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. Coordination will be ongoing throughout the Boards' PIRs to inform the development of such framework, which will be presented and discussed by both Boards in due course.

- (b) A review of publicly available inspection reports from jurisdictional audit regulators and oversight bodies; and
- (c) A desktop review of research papers and publications relevant to the auditing of accounting estimates.

Engagement with the Forum of Firms

8. The Project Team and IAASB staff engaged in a targeted discussion with FoF Representatives on October 27, 2025, focused on obtaining input that will inform the development of the public consultation survey for the PIR-ISA 540 (Revised). In particular, the Project Team sought input to:
 - (a) Gain insights into the benefits and potential areas of challenge with regard to the application of ISA 540 (Revised); and
 - (b) Gather information on activities and developments related to the implementation of ISA 540 (Revised).
9. Following a brief presentation on ISA 540 (Revised) and the PIR-ISA 540 (Revised) Plan, FoF Representatives were asked for their comments on questions around benefits and areas of challenges related to the implementation of ISA 540 (Revised) (see **Appendix 2**).

Perceived Benefits of ISA 540 (Revised)

10. FoF Representatives noted the following positive outcomes resulting from the revised standard:
 - (a) *Method, Assumptions and Data*. FoF Representatives noted that the enhanced focus on the three key elements of making accounting estimates (i.e., method, assumptions and data) enables auditors to gain a better understanding of management's process. This leads to a better risk assessment process and helps auditors design and perform more appropriate responses to the risks of material misstatement.
 - (b) *Standardization*. FoF Representatives also commented on the fact that the standard includes a more detailed approach to auditing accounting estimates and related disclosures, resulting in auditors applying the requirements in a more consistent and standardized way.
 - (c) *Professional skepticism*. FoF Representatives noted the increased focus on professional skepticism in the revised standard.

Challenges Related to the Implementation of ISA 540 (Revised)

11. FoF Representatives offered insights on the areas where it has been challenging to implement ISA 540 (Revised) for engagement teams, where their firms provided additional guidance through methodology or where internal or regulatory inspections had observations, including:
 - (a) *Scalability and proportionality*. FoF Representatives highlighted some concerns when applying the standard for simple or less complex accounting estimates. Although they agreed that the standard provides helpful guidance to understand complex accounting estimates, FoF Representatives were of the view that the extent of procedures and documentation required is too much for accounting estimates that are deemed simple. This results in additional time spent on the audit in areas that are seen as providing limited value. In addition, for certain entities, it is challenging to obtain sufficient and appropriate audit evidence due to the quality of information.

- (b) *Linkages with ISA 315 (Revised 2019).*³ Given that ISA 540 (Revised) was published and effective prior to ISA 315 (Revised 2019), FoF Representatives commented on the difficulty to first implement ISA 540 (Revised). In particular, the notion of inherent risk factors and how they affect the risk assessment and the responses to the identified risks of material misstatement may have lacked clarity in ISA 540 (Revised). Once ISA 315 (Revised 2019) was released, the notion was clarified and became easier to apply.
 - (c) *Retrospective review.* FoF Representatives commented on the limited guidance on the requirement to review the outcome of previous accounting estimates. They noted that the rapid change in the current economic environment makes it difficult to perform the requirement in all instances.
 - (d) *Developing a point estimate or range.* FoF Representatives noted a lack of clarity on the expected work effort when there is a difference between the point estimate developed by the auditor and management's estimate. They were also mindful to maintain independence when developing a point estimate.
 - (e) *Documentation.* FoF Representatives noted that documentation is often challenged during the regulatory inspections. The extent of documentation around the significant assumptions and where the auditor has exercised its professional skepticism is unclear.
12. In addition, FoF Representatives indicated that their firms have developed or are developing training on professional skepticism, which includes how to exercise professional skepticism when auditing accounting estimates and related disclosures. Firms have developed or are also developing templates and examples related to accounting estimates for different subject matters (e.g., goodwill impairment, business combinations, etc.)

Review of Inspection Reports

13. The Project Team reviewed recent audit inspection reports to gather relevant information on key findings and observations related to auditing accounting estimates. The specific reports reviewed during this process are listed in **Appendix 3**.
14. These audit inspection reports, across jurisdictions, continue to highlight pervasive and recurring deficiencies related to auditing accounting estimates and related disclosures. In particular, regulators have observed findings related to the following matters:
- (a) Professional skepticism;
 - (b) Risk assessment procedures, including obtaining an understanding of management's process to identify and determine accounting estimates;
 - (c) Responses to the risks of material misstatement; and
 - (d) Use of experts.

Professional Skepticism

15. Despite some improvement noted in many audit inspection reports, the inadequate exercise of professional skepticism and application of professional judgment persist as an underlying cause of

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

deficiencies. The key observations found in audit inspection reports relate to the insufficient challenge of management's key assumptions in the development of the accounting estimates. In some instances, it appeared that the engagement teams look for evidence that supported management's assumptions, or did not adequately challenge management in areas such as asset valuation, revenue recognition and the going concern assumption. In some cases, there was insufficient evidence that the engagement team had challenged the design of management's controls that address areas of high estimation uncertainty or had assessed the reasonableness of management's assumptions, including whether the engagement team had considered contrary or inconsistent evidence, where applicable.

Risk Assessment Procedures

16. Another theme emerging from regulatory findings is the insufficient understanding of how the estimates were developed, including the data, methods, and assumptions used. It was noted that auditors should obtain a comprehensive understanding of the entity's processes in order to appropriately identify risks of material misstatement and design and perform appropriate responses.
17. In addition, auditors did not perform sufficient risk assessment procedures tailored to estimation uncertainty, including fraud risks, and often failed to appropriately test review-type controls implemented by management, especially controls requiring judgment to evaluate whether they operated effectively.

Responses to the Risks of Material Misstatement

18. Several findings and observations noted in the audit inspection reports related to deficiencies in auditors' responses to the assessed risks of material misstatement. Regulators are reporting findings related to failure to sufficiently test the accuracy of the data, failure to develop procedures that are sufficiently responsive to identified significant risks of material misstatement, including fraud risks, and the lack of evidence that the engagement team performed a stand-back assessment.

Use of Experts

19. Another important area of regulatory inspection findings relates to the use and oversight of experts. The findings indicate that engagement teams often rely on management's or auditor-engaged experts without appropriately evaluating their competence and objectivity, or the relevance and reasonableness of the experts' methods and conclusions. Regulators note situations in which auditors assumed that the involvement of an expert substituted for their own work, resulting in insufficient inquiry, inadequate challenge of expert findings, and inadequate follow-up on identified issues.

Review of Academic Research Papers

20. The Project Team conducted a desktop review of academic literature related to auditing accounting estimates. While a wide range of papers was initially gathered, a significant number were deemed to be of limited usefulness for informing the current project because they examined auditing practices or auditing standard requirements prior to the effective date of ISA 540 (Revised). A small number of studies examined deficiencies highlighted in audit inspection reports and centered their research on the application of professional skepticism. Other papers, although relevant to the broader field of academic research related to accounting estimates, focused on aspects such as auditors' personal

traits, behavioral biases, or judgment-related factors. While providing some useful observations about the exercise of professional skepticism and application of professional judgment, those papers did not directly address matters related to the work effort requirements in ISA 540 (Revised).

Matter for IAASB Consideration:

1. The Board is asked for its observations on the results of the initial information gathering activities described above.

Part B: The Development of the Proposed Public Consultation Survey

21. In developing the public consultation survey, the Project Team considered:
 - (a) The PIR-ISA 540 (Revised) objectives, specifically identifying improvements or benefits from applying the revised standard and practical challenges or questions regarding its application, including whether it is being consistently understood and implemented.
 - (b) The key findings from the initial information-gathering activities completed in phase 1 of the PIR-ISA 540 (Revised). These findings informed the development of more focused questions for the public consultation survey.
 - (c) The nature of the standard. The Project Team reflected on the fact that ISA 540 (Revised) is a 'performance' standard, and therefore likely has a greater impact on the auditors applying the requirements of ISA 540 (Revised) than some other stakeholder groups (e.g., investors or other users). In addition, the survey questions will necessarily address the application of the requirements relating to the audit evidence-gathering process.
 - (d) The Board's suggestions that the public consultation survey be designed to highlight both the benefits and key lessons learned from implementing the revised standard, and address the interconnection with ISA 315 (Revised 2019), given that both standards address the risk assessment process in an audit engagement.
 - (e) Other surveys. The Project Team considered the approach and structure of the IAASB Auditor Reporting PIR survey. Although helpful as a datapoint for certain aspects, the Project Team noted that the focus was different, i.e., a 'reporting' standard versus a 'performance' standard – the outcomes of the former naturally tend to be more visible/tangible to a broader range of stakeholders, while the latter has a more technical work effort focus. The Project Team also consulted the joint strategy and work plan survey (see **Agenda Item 2**) to ensure consistency regarding certain elements (e.g., set-up, questions about the respondent and the rating scale used).
22. These considerations affected the approach to and structure of the proposed public consultation survey and key matters included in the proposed public consultation survey, as presented in **Agenda Item 4-A**.

Approach to and Structure of the Public Consultation Survey

23. The Project Team recognizes the importance of including questions aimed at identifying the positive outcomes as well as the issues that may have arisen from applying the standard. The Project Team also acknowledges that perspectives and experiences related to the application of ISA 540 (Revised) differ for the various stakeholder groups.

24. The Project Team proposes that the survey include five sections, as shown in **Agenda Item 4-A**, and as discussed in more detail below. Certain specific matters and questions will be tailored to different stakeholder groups, ensuring that each respondent is asked questions relevant to their role and interaction with ISA 540 (Revised) or its outputs.

Section I: Background, Purpose and Request to Stakeholders

25. This section will ensure that respondents are well-informed and prepared to provide meaningful feedback. The introduction outlines the key enhancements of ISA 540 (Revised), informs the stakeholders on the PIR-ISA 540 (Revised) Plan and the purpose of the public consultation survey, giving stakeholders the context they need to understand why certain questions are asked and how their responses will be used. In addition, this section formally invites stakeholders to participate, reinforcing the value of their input and encouraging higher and more engaged response rates.

Section II: About the Respondent

26. This section asks demographic information from respondents and is consistent with other surveys and other public consultation.

Section III: Overall Questions

27. This section includes overall questions related to the achievement of the IAASB's intended purpose and objectives for revising the standard. These open-ended questions are designed to provide general views about ISA 540 (Revised) without getting into details and will help the Project Team establish a baseline understanding of stakeholders' overarching views and concerns. In particular, the response to question 7 is optional, recognizing that respondents may comment in more detail on specific matters in other sections of the survey, but can be used to provide general views similar to a 'cover letter' when responding to other IAASB consultations.

Section IV: Perceived Benefits from ISA 540 (Revised)

28. This section seeks to understand stakeholders' perspectives on the perceived benefits or improvements resulting from the implementation of ISA 540 (Revised). The specific benefits included in this section were based on the positive outcomes that were highlighted during the Project Team's initial information-gathering activities.
29. The Project Team proposes to use a six-point scale from "strongly agree" to "strongly disagree" to assist with the collection of structured, comparable and quantifiable feedback. This scale intentionally excludes a neutral midpoint to encourage respondents to indicate whether their views lean more positively or negatively. This design helps to provide clearer insight into the stakeholders' views and facilitate the development of evidence-based recommendations.
30. The Project Team is of the view that using such a scale is preferable to simply asking open-ended questions. However, the Project Team notes that open-ended questions can provide rich qualitative insights and therefore have included a question at the end of the section so respondents have the opportunity to provide additional feedback.

Section V-A to V-C: Potential Issues or Challenges Related to ISA 540 (Revised) and Impacts of ISA 540 (Revised)

31. For most stakeholder groups, the survey will focus on the following key areas of potential issues or challenges in implementation noted by the Project Team from its information-gathering activities (see Section V-A of **Agenda Item 4-A**):
 - (a) Scalability and proportionality;
 - (b) Professional skepticism;
 - (c) Risk assessment procedures, including the relationship with ISA 315 (Revised 2019) and retrospective review of accounting estimates;
 - (d) Responses to the risks of material misstatement, including testing how management made the accounting estimates and developing a point estimate or range; and
 - (e) Other matters – communications, specialized skills or knowledge and documentation.
32. Other stakeholders (preparers or issuers of financial statements and those charged with governance; investors, analysts or other users of financial statements) will see different questions reflecting the impacts of ISA 540 (Revised) as perceived by those stakeholder groups (see Sections V-B and V-C of **Agenda Item 4-A**).
33. For this section, the Project Team also proposes to use a six-point rating scale, for the reasons explained in paragraph 29. However, the scale has been adapted to focus on the extent of issues or challenges or the degree of impact.
34. The Project Team considered asking respondents to elaborate on each issue or the challenge or matter of impact, as applicable, but instead proposes to add two open-ended questions at the end of each topic (e.g., there are five topics covered in Section V-A of the survey) to provide respondents the opportunity to describe the issues or challenges encountered (or impacts noted), including what, in their view, may be the root causes of such issues or challenges. Feedback about root causes will help determine whether the issue or challenge is due to a lack of clarity of the standard or maybe more related to auditor execution. Respondents will also be asked to provide any suggestions for resolving the challenges they have identified or experienced.

Public Consultation Period

35. Subject to the Board's approval in December 2025, the public consultation survey is expected to be published in the first half of quarter 1 of 2026 for a 90-120-day comment period (see paragraph 17 of the PIR-ISA 540 (Revised) Plan).

Matters for IAASB Consideration:

2. The Board is asked for its views on the proposed public consultation survey, as presented in **Agenda Item 4-A**.

Part C – Way Forward

36. The Project Team will continue with other information-gathering activities in Phase 2 in accordance with paragraphs 10–15 of the PIR-ISA 540 (Revised) Plan. The PIR is expected to be completed by December 2026.

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**.

Appendix 2

Questions for the Forum of Firms

Discussion Questions

Benefits from Applying ISA 540 (Revised)

1. In your view, what have been some of the major benefits or improvements brought about by implementing ISA 540 (Revised)?

Areas of Challenge Related to the Implementation of ISA 540 (Revised), and Related Firm Guidance or Initiatives

These questions are directed at identifying potential areas of challenge and practical concerns. In addition, they aim at understanding the nature and extent of guidance that has been developed by your firm to help with the consistent understanding and implementation of ISA 540 (Revised).

2. What challenges have auditors faced in applying ISA 540 (Revised)?
3. Are there particular areas of ISA 540 (Revised) that your firm's guidance emphasizes (for example, risk assessment procedures (including the interaction with the risk assessment procedures required by ISA 315 (Revised 2019), testing methods for management's models and assumptions, use of experts, or auditing related disclosures)? If so, which areas, and why?
4. What are the key inspection findings and observations relating to the audit of accounting estimates in your jurisdiction and how your firm has responded to such findings and observations?
5. Does your firm have any ongoing or upcoming initiatives related to assist with auditing accounting estimates?

Other Matters

6. Are there any other issues or matters that the IAASB may need to consider in developing the public consultation survey on the implementation of ISA 540 (Revised)?

Recent Audit Inspection Reports

- Canadian Public Accountability Board (CPAB)
 - [2022 Annual Inspections Results, March 2023](#)
 - [2023 Interim Inspections Results, October 2023](#)
 - [2023 Annual Inspections Results, March 2024](#)
 - [2024 Interim Inspections Results, October 2024](#)
 - [2024 Annual Inspections Results, March 2025](#)
 - [2025 Interim Inspections Results, October 2025](#)
- International Forum of Independent Audit Regulators (IFIAR)
 - [Survey of Inspection Findings 2022](#)
 - [Survey of Inspection Findings 2023](#)
 - [Survey of Inspection Findings 2024](#)
- Japan's Certified Public Accountants and Auditing Oversight Board (CPAAOB),
 - [Case report from Audit Firm Inspection Results, July 2023](#)
 - [Case report from Audit Firm Inspection Results, July 2024](#)
- Saudi Arabia's Capital Market Authority (CMA)
 - [Most Prominent Observations on Listed Companies Financial Statements Disclosures for the Years 2020 and 2021](#)
 - [The Most Prominent Observations of the Supervision on Registered Accounting Firms for the Years 2020 and 2021](#)
- Securities Commission Malaysia's Audit Oversight Board (AOB)
 - [Annual Inspection Report 2022](#)
 - [Annual Inspection Report 2023](#)
 - [Annual Inspection Report 2024](#)
- Singapore's Accounting and Corporate Regulatory Authority (ACRA)
 - [Audit Regulatory Report 2023](#)
 - [Audit Regulatory Report 2024](#)
- South Africa's Independent Regulatory Board for Auditors (IRBA)
 - [2022 Public Inspection Report on Audit Quality](#)
 - [2023 Public Inspection Report on Audit Quality](#)
 - [2024 Public Inspection Report on Audit Quality.](#)
- United Kingdom Financial Reporting Council (UK FRC)
 - [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2022](#)
 - [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2023](#)
 - [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2023](#)

- [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2024](#)
- [Annual Review of Audit Quality, July 2024](#)
- [Annual Review of Audit Quality, July 2025](#)
- US Public Company Accounting Oversight Board (PCAOB)
 - [Spotlight – Staff Update on 2023 Inspection Activities, August 2024](#)
 - [Spotlight – Staff Update on 2024 Inspection Activities, March 2025.](#)