

May 28, 2026

Submitted electronically

Mr. Thomas R. Seidenstein (Chair)
International Auditing and Assurance Standards Board

**Comments on the IAASB post-implementation review of International Auditing Standards 540 (Revised),
*Auditing Accounting Estimates and Related Disclosures***

Dear Mr. Seidenstein,

The Canadian Public Accountability Board (CPAB) appreciates the opportunity to participate in the International Auditing and Assurance Standards Board (IAASB)'s post-implementation review of International Auditing Standards 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ISA 540). The IAASB's post-implementation reviews are critical to supporting the development of high-quality standards to better understand both the benefits achieved and the challenges experienced in practice.

CPAB is Canada's independent public company audit regulator charged with overseeing public company audits performed by registered public accounting firms. Charged with overseeing audits performed by registered public accounting firms, CPAB contributes to public confidence in the integrity of financial reporting and is committed to protecting Canada's investing public. CPAB is a member of the International Forum of Independent Audit Regulators (IFIAR), and contributed to IFIAR's written response to the IAASB post-implementation review of ISA 540. The purpose of our individual comment letter is to emphasize specific points we feel are most important in the Canadian context.

CPAB's inspection program is risk based. We select audit files and focus areas based on an assessment of risks to audit quality, including areas involving significant judgment, heightened estimation uncertainty, complexity, and subjectivity. As a result, our inspection findings are not intended to be representative of all audits performed under ISA 540 (Revised) but rather to highlight areas where the risk of material misstatement is higher and where audit quality challenges are more likely to arise. This context is important in interpreting our views on the effectiveness and application of the standard.

While CPAB supports the objectives of the post-implementation review, we have chosen to provide our input in the form of this letter rather than responding strictly through the prescribed survey format. Based on our inspection experience, we found it challenging to rate and link specific challenges to individual survey questions in a way that would faithfully reflect the nature and context of the issues identified in our inspections. Many of the challenges we observe are interrelated, arise across multiple requirements, and are best addressed holistically.

Overall Comments

Overall, CPAB believes that the IAASB has partially achieved its objectives in developing ISA 540 (Revised) because the revised standard has more clearly articulated expectations related to risk assessment, professional skepticism, and the evaluation of audit evidence. In particular, the emphasis on inherent risk factors, the stand-back requirement, and the focus on methods, assumptions, and data represent meaningful enhancements that should result in improved audit quality.

However, the complexity of audits—particularly in areas involving accounting estimates—is evolving rapidly, and our inspection experience indicates that some auditors face challenges in applying the standards. Based on CPAB inspections, we have observed that the challenges in auditing accounting estimates can be more pronounced at smaller audit firms with more limited resources. These challenges are often compounded in audits of smaller entities, where management may have limited resources or expertise, and therefore may not have adequately identified or addressed the level of estimation uncertainty associated with complex estimates. Addressing these issues will require continued and enhanced collaboration among standard setters, regulators, audit firms, and other participants in the audit ecosystem, alongside targeted non-authoritative guidance that provides additional support to smaller firms who may be more likely to audit smaller entities with less established internal controls over financial reporting.

Key Challenges Identified through CPAB Inspections

CPAB issued a publication in 2021 that discussed common inspection findings related to the implementation of Canadian Auditing Standard (CAS) 540 (Revised) (ISAs issued by the IAASB are adopted in Canada and issued as CAS). The observations in our 2021 publication¹ were based on our inspection of audit engagements that had applied the revised standard for the first time. The inspection findings highlighted in that publication continue to be relevant to the IAASB's post-implementation review. We have issued an updated publication, [Strengthening Audit Quality – Auditing Accounting Estimates](#), that builds on the key messages included in the 2021 publication with additional examples and linkage to firms' system of quality management.

Common challenges identified through our inspections include:

- Not requesting management to address the level of estimation uncertainty. [ISA 540.27]
- Insufficient challenge of management's judgments, particularly where estimates involve significant subjectivity or are sensitive to management bias. [ISA 540.22-29]
- Inappropriate use of auditor-developed point estimates or ranges without a sufficient understanding of how management addressed estimation uncertainty, and without adequate consideration of auditor independence. [ISA 540.26]
- Inadequate consideration of contradictory audit evidence and insufficient documentation of stand-back assessments. [ISA 540.18, .33, .34]

¹ [2021-inspections-insights-estimates-en.pdf](#)

- Weaknesses in risk assessment procedures, including insufficient linkage between identified risks, controls, and the nature and extent of audit responses. [ISA 540.16, .18]

One example of these application challenges relates to the use of auditor-developed point estimates. CPAB's inspection findings continue to indicate that auditors may default to developing a point estimate without first obtaining a sufficient understanding of how management identified and addressed estimation uncertainty. This can detract from the auditor's obligation to sufficiently understand and challenge management's chosen methods, assumptions, and data, as required by ISA 540 (Revised). Where management's process is not adequately evaluated, reliance on auditor-developed point estimate may also limit the auditor's ability to identify contradictory audit evidence, indicators of management bias, or deficiencies in management's judgments. These challenges are more likely to arise in circumstances where management has limited expertise or where estimation processes and controls are less developed.

These issues suggest that while the requirements of ISA 540 (Revised) are clearer, translating those requirements into consistently robust audit execution remains difficult in practice.

Non-Authoritative Guidance/Targeted Amendments

CPAB has observed that challenges in applying ISA 540 (Revised) may arise from inconsistent understanding of how certain requirements are intended to operate. Common areas of misunderstanding include the auditor's responsibilities in addressing estimation uncertainty, the appropriate use of auditor-developed point estimates, and the relationship between risk assessment, professional skepticism, and the nature and extent of audit procedures. These challenges suggest that targeted application guidance focused on commonly misunderstood areas could support more consistent implementation of the standard across engagements.

CPAB encourages the IAASB to explore if these challenges are best addressed through targeted amendments to ISA 540 (Revised) or the issuance of non-authoritative guidance. This includes considering how the IAASB's non-authoritative materials can better equip auditors to apply the principles of ISA 540 (Revised) consistently and effectively in practice. Given the judgmental nature of the standard and the wide range of estimation techniques, levels of complexity, and risk profiles encountered, auditors may benefit from practical support that helps translate principles into action. More targeted materials—such as illustrative considerations, probing questions, or decision focused examples - could assist engagement teams in exercising professional skepticism, challenging management more effectively, and responding appropriately to heightened estimation uncertainty in a scalable manner.

Role of Systems of Quality Management (SQM)

A firm's system of quality management (SQM) plays a critical role in supporting effective implementation of ISA 540 (Revised). CPAB's inspections continue to observe a strong correlation between robust firm-level quality management and more consistent audit quality outcomes, particularly in areas requiring significant professional judgment such as accounting estimates.

Effective SQMs - through appropriate resourcing, consultation, monitoring, and access to specialized expertise - can significantly enhance engagement teams' ability to appropriately assess risks, challenge management, and respond to complex estimation issues. The development of practical scalable guidance that reinforces the linkage between consistent execution of high-quality audits and the requirements of ISQM 1, *Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related service engagements*, will be critical to support firms, particularly smaller firms.

Closing Remarks

CPAB appreciates the IAASB's efforts to assess the effectiveness of ISA 540 (Revised) and hopes that the perspectives provided in this letter will be useful in informing the post-implementation review. We would welcome further dialogue with the IAASB as it considers next steps, including whether additional non-authoritative guidance or other actions may help address the challenges observed in practice.

If you wish to discuss, please contact me, Stacy Hammett, Chief Auditor (stacy.hammett@cpab-ccrc.ca), or Jeremy Justin, Chief Risk Officer and VP, External Outreach (jeremy.justin@cpab-ccrc.ca).

Yours truly,



Stacy Hammett, Chief Auditor
Canadian Public Accountability Board

cc. Jeremy Justin, Vice-President, External Outreach
Bob Bosshard, Chair, Auditing and Assurance Standards Board (AASB)