

ISA 540 (Revised) Post-Implementation Survey

This document includes survey questions for:

- Accounting firms
- Jurisdictional and Other Standard Setters
- Professional Accountancy Organizations (PAOs)
- Regulators and Audit and Assurance Oversight Bodies
- Academia
- Others

!! Not for Submission !!

This document includes the *Word* version of the International Auditing and Assurance Standards Board's (IAASB) public consultation survey for the post-implementation review of International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

It aims to facilitate *stakeholders' internal outreach or information-gathering activities, and drafting and review of responses prior to completing the online survey*.

Please provide your input by using the [online survey](#).

About this Survey

This public consultation survey includes a series of questions to gather input on the impact of ISA 540 (Revised) as part of the IAASB's post-implementation review (PIR) of the standard. The survey was developed with a broad range of stakeholders in mind, including auditors and audit firms, jurisdictional standard setters, professional accountancy or professional organizations, regulators or audit and assurance oversight bodies, preparers or issuers, those charged with governance, investors and other users of financial statements, and academics. The survey questions have been tailored to reflect the perspectives and experiences of different stakeholder groups, ensuring that each respondent is asked questions relevant to their role and interaction with ISA 540 (Revised) or its outputs.

Request and Related Information

Respondents are asked to complete the online public consultation survey for the PIR of ISA 540 (Revised) by following the link provided on the IAASB website. [Access the ISA 540 Post-Implementation Review Survey web page here](#). **Responses to the public consultation survey are requested by June 15, 2026.**

We encourage stakeholders to further distribute the link to the online survey to their members or constituents, as applicable, within their jurisdictions or organizations, and as part of raising awareness or undertaking further outreach activities with all stakeholders.

You may respond to all questions or only selected questions or matters.

All responses to this survey, whether complete or partial, once submitted will be accepted and considered as input for the work of the IAASB project team in relation to the PIR of ISA 540 (Revised). The responses received will be summarized (in various ways, including, for example by stakeholder group) for purposes of progressing the PIR project, including providing feedback to the IAASB and in developing recommendations for possible further actions.

All responses will be considered a matter of public record and submissions will ultimately be posted on the IAASB website.

Structure of the Survey

The questions for respondents are organized in the following sections.

Section I — Background and Purpose

Section II — About the Respondent

Section III — Overall Questions

Section IV — Perceived Benefits from ISA 540 (Revised)

Section V — Potential Issues or Challenges Related to ISA 540 (Revised)

Section I: Background and Purpose

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

1. In June 2018, the IAASB approved ISA 540 (Revised) as a [final standard](#).¹ 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 parentheses):
 - (a) Introduced the concept of inherent risk factors, including not only estimation uncertainty but also complexity, subjectivity and others (paragraphs 2, 4, 16).
 - (b) Enhanced risk assessment procedures relating to obtaining an understanding of the entity and its environment, including the entity's system of 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)² and ISA 330³ (paragraphs 19 and 20).⁴
 - (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

¹ Note that all references to paragraphs and other content of ISA 540 (Revised) is to the latest version of the standard in the [2025 IAASB Handbook](#).

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ The ISA 315 (Revised 2019) and ISA 540 (Revised) Task Forces coordinated closely to minimize the extent of conforming changes to ISA 540 (Revised) as a result of ISA 315 (Revised 2019). The conforming changes to ISA 540 (Revised) were generally limited to aligning concepts and terminology and did not change the performance requirements in ISA 540 (Revised).

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 non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams, and illustrative examples.⁵

Post-Implementation Review

Objectives and Approach

5. In September 2025, the IAASB agreed a plan to perform a post-implementation review (PIR) of ISA 540 (Revised). As indicated in the [PIR for ISA 540 \(Revised\) Plan](#), the IAASB aims to achieve the following:
- (a) Determine whether ISA 540 (Revised) has achieved its intended purpose by identifying:
 - (i) Improvements or benefits from applying the revised standard; and
 - (ii) Practical challenges or questions regarding its application, including whether it is being consistently understood and implemented; and
 - (b) Determine what actions, if any, are needed by the IAASB to address identified matters.
6. To support these objectives, the IAASB is undertaking a formal public consultation survey to gather information from a broad range of stakeholders. Additional targeted outreach activities will be undertaken as well to complement the understanding of identified implementation challenges or questions and to augment, as applicable, the public consultation process to ensure input is obtained from all stakeholder groups.

Potential Output

7. Based on the insights from the public consultation survey and other targeted outreach activities, the IAASB will determine appropriate next steps, which may include one or a combination of further information-gathering activities, standard-setting activities, or development of non-authoritative materials.
8. The IAASB may also determine that no further action is needed or that there are opportunities to facilitate or support actions by others.
9. A key consideration will be the nature and extent of any perceived challenges, including whether those challenges are due to lack of clarity or insufficiency of the requirements or application material in the standard.

⁵ Please refer to the [ISA 540 Implementation webpage](#) for more information on the non-authoritative materials.

Section II: About the Respondent

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)	Global Accounting Alliance (GAA)
Name(s) of contact(s) for this submission	Wolf Böhm Brian Wilson
Job title or role	Co-Chairs, Auditing and Assurance Working Group
E-mail address(es) of contact(s)	Boehm@idw.de Brian.Wilson@aicpa-cima.com

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

Accounting Firm – Global Accounting Firm	
Accounting Firm – Large National or Regional Accounting Firm	
Accounting Firm – Small- or Medium-Sized Accounting Firm	
Accounting Firm – Sole Practitioner	
Accounting Firm – Public Sector Audit Institution	
Jurisdictional Standard Setter (JSS) or Other Standard Setter	
Professional Accountancy or Professional Organization (PAOs)	X
Regulator or Audit and Assurance Oversight Body	
Preparer or Issuer of Financial Statements (Including Public Sector Organizations), or Those Charged with Governance (TCWG)	
Users of Financial Statements (e.g. investor, analyst, lender or other creditor)	
Academia	
Other – Specify	

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

Africa	
Asia Pacific	
Europe	
South America	

Middle East	
North America	
Global	X

4. Did you undertake outreach activities with other stakeholders outside your organization to inform your responses to this survey?

Yes	X	No	
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- 4A. **[If the response to question 4 is yes]** Please provide further information about your outreach activities, including:

The manner in which the outreach was undertaken.	The GAA's response was developed by members of the GAA's audit and assurance working group, primarily by written submissions received from those members. The input received can be considered the unofficial views from professional accountancy organizations (PAOs) they represent.
The nature and number (or estimate thereof) of stakeholders with whom you engaged.	The GAA A&A working group includes representatives from the 10 leading professional accountancy bodies that represent 1.4 million members in over 180 countries. Accordingly, these members draw from diverse, cross-jurisdictional perspectives.

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).

Input	n/a
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Section III: Overall Questions

This section focuses on whether ISA 540 (Revised) has achieved its intended purposes and objectives.

In revising ISA 540, the IAASB aimed to:

- (a) Establish 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. These revisions would also emphasize the importance of the appropriate application of professional skepticism when auditing accounting estimates.
- (b) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed.

The IAASB also issued non-authoritative materials to support the adoption and effective implementation of ISA 540 (Revised), including presentations, flowcharts and diagrams and illustrative examples (refer to the [ISA 540 Implementation Webpage](#)).

Additional Information

Please note, the questions in this section are overarching in nature and allow respondents to share overall views without getting into details. The specific questions in **Sections IV** and **V** that follow provide opportunity for respondents to comment in more detail on specific aspects related to auditing of accounting estimates.

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.

Input

Overall, we believe that ISA 540 (Revised) has achieved its intended purpose.

The subsequent issue of ISA 315 (Revised 2019) has led to challenges post-implementation and therefore there is an opportunity to streamline the standard so that it integrates with ISA 315 (Revised 2019) more effectively.

Accordingly, we believe aligning the post-implementation review information gathering and analysis activities for ISA 540 (Revised) and ISA 315 (Revised 2019) together would have provided a more fulsome understanding of the intertwining benefits and challenges associated with these standards. At a minimum we urge the IAASB to consider the insights obtained and potential actions to take from this survey and its ongoing ISA 540 (Revised) PIR efforts to be provisional and contingent upon the results of the IAASB's ISA 315 (Revised 2019) activities.

Additionally, we recommend the IAASB take into consideration the timing and findings of other jurisdictions that have adopted ISA 540 (Revised) or its equivalent standard to better assess the feedback received and how much data and insights those jurisdictions are able to provide. This would include any significant differences in the equivalent standards adopted in those jurisdictions and why that occurred.

Finally, we believe the IAASB's efforts are a natural opportunity to liaise with global accounting standard setters to understand the post-implementation findings of the major changes to accounting standards that also drove the IAASB's efforts to revise ISA 540 (Revised). Such efforts would include understanding stakeholders' views regarding the auditability of standards in major financial reporting frameworks, such as IFRS 9 Financial Instruments and whether the underlying financial reporting framework is complementary and interoperable with ISA 540 (Revised).

7. Are you aware of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised)?

Yes	X	No	
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- 7A. **[If the response to question 7 is yes]** Do you agree that the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) are useful?

4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
	X			

Input	n/a
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Section IV: Perceived Benefits from ISA 540 (Revised)

This section seeks to understand stakeholders' perspectives on the perceived benefits or improvements resulting from the implementation of ISA 540 (Revised). The purpose is to gather insights on how the revised standard has, for example, contributed to enhanced audit quality by promoting consistency in the approach to auditing accounting estimates, or contributed to enhanced financial reporting quality by fostering greater interaction among the auditor, management and those charged with governance.

Additional Information

Please note, this section deliberately focuses on **perceived benefits or improvements**. To enhance the richness of input from the survey and to facilitate more effective analysis of responses received, please limit your responses to these aspects. The next section, **Section V**, allows you to share your views on any issues or challenges, or certain specific impacts relating to ISA 540 (Revised).

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

Benefits of ISA 540 (Revised)	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No 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 estimation uncertainty.		X			
(g) Enhanced interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates.		X			

Benefits of ISA 540 (Revised)	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(h) Enhanced quality of financial reporting related to accounting estimates.		X			

9. Are there any additional benefits or positive outcomes arising from the implementation of ISA 540 (Revised) that you would like to highlight?

Yes	X	No	
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Input	In our view, the introduction of ISA 540 (Revised) has led to noticeable improvements in the audit of complex accounting estimates. The standard's focus on methods, assumptions, and data has encouraged a more structured and risk-assessment-driven audit approach. We believe that the clearer distinction between inherent and control risks supports more targeted, risk-assessment-driven audits. In particular, the separate requirements relating to models and data enable auditors to design more focused responses to identified and assessed risks. The revised standard has also provided an opportunity to raise awareness within firms and among preparers of the need for a systematic approach to accounting estimates and the documentation of that approach, thereby facilitating efficient and effective audits of accounting estimates. In the context of increasing digitalization, we observe that the integrity and consistency of data, particularly data originating from IT systems, are becoming increasingly important in the audit of accounting estimates. We also consider the standard's emphasis on management bias and estimation uncertainty to be valuable in promoting and guiding the exercise of professional skepticism.
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Section V: Potential Issues or Challenges Relating to ISA 540 (Revised)

A. Scalability and Proportionality

The IAASB acknowledged the importance of a scalable standard for all types of accounting estimates, from those that are relatively simple to those that are complex, and included several elements to address this, including:

- Introducing and emphasizing the concept of a spectrum of inherent risk (paragraph 4). Under the spectrum of inherent risk concept, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale.
- Specific paragraphs in the application material that demonstrate how ISA 540 (Revised) is scalable in the risk assessment (paragraphs A20-A22) and the responses to the assessed risks of material misstatement (paragraph A84).
- Emphasizing in a requirement that the auditor's further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement at the assertion level and that the auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be (paragraph 18).

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 experienced or observed or are aware of any issues or challenges related to scalability and proportionality.

4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
X				

11. Briefly describe these or any other issues or challenges you encountered or observed related to scalability and proportionality.

Input	In connection with our response to question 18(b), the differentiation of clearly insignificant estimation uncertainty that we highlight in our response below creates particular challenges for small and medium-sized practices (SMPs), whose client base typically consists predominantly of small and medium-sized entities (SMEs), and where management processes may be informal and controls less formalized In many SME audits, accounting estimates are relatively straightforward and involve limited estimation uncertainty. Nevertheless, auditors may feel compelled to perform and document the full range of ISA 540 (Revised) risk assessment procedures, even where the risk of material misstatement is low on the spectrum of inherent risk. This can result in a duplication of procedures already performed under ISA 315 (Revised), increase
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redundant documentation effort, and reduce the scalability of the standard. As a consequence, audit effort may become disproportionate to the nature and complexity of the estimate and the risks involved, creating unnecessary implementation burdens for SMPs without a corresponding improvement in audit quality.

However, we believe there are broader scalability challenges, beyond those noted above for the audits of SMEs. The challenge is to apply the standard in a way that responds to the assessed risks and the nature of the estimate while avoiding unnecessary work for lower-risk estimates. For example, we observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is applied in practice.

Finally, we believe documentation challenges exist from the complexity, duplication and lack of scalability of ISA 540 (Revised) because auditors may feel compelled to document more extensively than is proportionate to demonstrate compliance with the standard. See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.

12. 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?

Yes	No	Difficult to Determine	No Response
X			

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)?

Input

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) apply only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Non-authoritative materials would also be helpful to demonstrate the scalability of the standard and what proportionate documentation looks like for simple or lower-risk estimates.

Please also see our response to question 21.

B. Professional Skepticism

ISA 540 (Revised) includes several key elements that are designed to enhance the auditor's application of professional skepticism, including:

- Use of stronger language, such as “challenge,” “question,” and “reconsider” to reinforce the importance of exercising professional skepticism (see, for example, paragraphs A60, A95, and A135 of ISA 540 (Revised)).
- A requirement to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (paragraph 18).
- A requirement to “stand back” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence (paragraphs 33–35).

14. Indicate the extent to which you have experienced or observed or are aware of the following issues or challenges in applying or relating to ISA 540 (Revised) with respect the auditor *exercising professional skepticism* when auditing accounting estimates and related disclosures.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No 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 encountered or observed related to exercising professional skepticism.

Input

Although there are issues in practice in terms of challenging management's judgements, we believe that these are inherent to the nature of accounting estimates and related disclosures. We consider that the standard already appropriately addresses these issues and is not deficient in this respect.

Care should be taken when interpreting inspection findings in this respect, as the cause of findings typically does not indicate deficiencies in standards, but deficient application thereof.

That said, we urge the IAASB to monitor developments related to complex or technology-enabled estimates, including AI-supported models. The use of such models may make it harder for auditors to understand and challenge management's methods, assumptions, data and outputs, particularly where the model has a "black box" nature. The IAASB may need to link its technology monitoring efforts vis-a-vis The Technology Catalog to this area and consider in the near-term potential non-authoritative implementation support that could be helpful for how auditors in how to apply professional skepticism when auditing complex, model-driven or AI-supported estimates, including when specialized skills or knowledge may be needed.

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?

Yes	No	Difficult to Determine	No Response
	X		

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)?

Input

As discussed above, we consider that challenges arise from applying the standard rather than misunderstanding of the standard. Other than some of the NAM recommendations, above, we do not see the need for the IAASB to focus on this area, which we consider rather to be the role of the regulators to monitor.

C. Risk Assessment Procedures

ISA 540 (Revised) includes an enhanced risk assessment specifically tailored to accounting estimates that builds on the risk assessment required by ISA 315 (Revised 2019). The inherent risk factors of estimation uncertainty, complexity and subjectivity play a central role in the approach to the identification and assessment of the risks of material misstatement related to accounting estimates, and the responses

to those assessed risks. ISA 540 (Revised) also notes that there may be other inherent risk factors, including susceptibility to misstatement due to management bias or fraud.

18. Indicate the extent to which you have experienced or 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*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No 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	

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(f) Whether any of the assessed risks of material misstatement are significant risks.				X	

- 18A. [If the response to question 18(b) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Provide additional input, if any, about any issues or challenges regarding the *interaction of ISA 540 (Revised) with ISA 315 (Revised 2019)* in relation to risk assessment procedures and the identification and assessment of risks of material misstatement for accounting estimates.

Input	In our view, the issue raised in 18(b) is the most important challenge arising from the implementation of ISA 540 (Revised) in practice, and the challenges referred to in 18(a), 18(c) and 18(d) largely stem from this. We believe that auditors struggle to understand how the ISA 540 Revised) requirements are incremental to, rather than duplicate, the broader risk assessment work performed under ISA 315 (Revised 2019). This can create a perception of duplicated work effort, particularly when obtaining an understanding of management's process and related controls for accounting estimates has requirements that are located in multiple standards. This can lead to lower audit quality because of the inconsistent application of principles. We also observe in practice and in local guidance on the application of ISA 540 (Revised) that ISA 540 (Revised) is not applied to all estimates. We note that with few exceptions, such as local cash and share capital at par, all of the other items in the primary financial statements are based on estimates of some sort, including, for example, the cost of acquisition or production of inventory or plant and equipment, the calculation of which involves estimated allocation of costs. There appears to be a disconnect between the scope of application of ISA 540 (Revised) as defined in the standard and when the standard is applied in practice. See our response to questions 13 and 21 for our suggestions on how these matters could be addressed.
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- 18B. [If the response to question 18(c) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] 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*.

Statements Related to Retrospective Review	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) The retrospective review process is difficult due to changes in economic conditions or assumptions that make prior-period estimates less comparable.					
(b) The time and effort required to perform a retrospective review outweigh the perceived benefits for audit risk assessment.					

19. Briefly describe these or any other issues or challenges you encountered or 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.

Input

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

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?

Yes	No	Difficult to Determine	No Response
X			

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)?

Input

Given ISA 540 (Revised) originated the “in applying” ISA 315 (Revised 2019) “lens” often found in more recent standards such as ISA 240 (Revised) and ISA 570 (Revised 2024), we believe the IAASB’s PIR efforts should seek to more deeply understand and then clarify through NAM, the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly to help auditors avoid duplication in risk assessment and in understanding the entity’s processes and controls to enable scalability.

Otherwise, the answer “yes” here relates only to the challenges arising referred to in question 18(b). No further clarification is considered necessary.

The focus in ISA 540 (Revised) is on addressing measurement uncertainty relating to items in the financial statements. We suggest that the scope of application of the standard be limited to estimates involving estimation uncertainty that leads to the identification of a risk of material misstatement and has not been assessed as being at an acceptably low level or at the

lower end of the spectrum of inherent risk. This would imply that ISA 540 (Revised) applies only to significant risks and other inherent risks resulting from estimation uncertainty that are not at the lower end of the spectrum of inherent risk.

Please also see our response to question 13.

D. Responses to the Assessed Risks of Material Misstatement and Overall Evaluation

The auditor's responses to assessed risks of material misstatement for accounting estimates include one or more of the following testing strategies:

- Obtaining audit evidence from events occurring up to the date of the auditor's report;
- Testing how management made the accounting estimate; or
- Developing an auditor's point estimate or range.

For these testing strategies, the IAASB introduced objective-based requirements, focused on methods (including models), assumptions and data. The objective-based requirements allow scalability in the nature, timing and extent of the procedures performed, recognizing that the higher the assessed risks of material misstatement, the more persuasive the audit evidence needs to be.

ISA 540 (Revised) requires the auditor to determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. In making this determination, the auditor is required to evaluate the effect of uncorrected misstatements on the financial statements. ISA 540 (Revised) provides guidance for that evaluation, consistent with ISA 450, *Evaluation of Misstatements Identified During the Audit*.

22. Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *responding to the assessed risks of material misstatement*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
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 level from among the testing approaches in paragraph 18 of ISA 540 (Revised).			X		
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.			X		

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(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	
Overall Evaluation					
(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. [If the response to question 22(d) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges] Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Testing management's selection of the method, significant assumptions, and data used, including whether management's					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
judgments give rise to indicators of possible management bias.					
(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. **[If the response to question 22(e) is 4-Significant Issues or Challenges or 3-Moderate Issues or Challenges]** Indicate the extent to which you have experienced or observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Determining when it may be appropriate to develop an auditor's point estimate or range.					X
(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					X

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
that were different from management's models and assumptions.					

23. Briefly describe these or any other issues or challenges you encountered or 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.

Input

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

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?

Yes	No	Difficult to Determine	No Response
	X		

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)?

Input

As discussed above, the challenges, which are inherently greater for estimates with a high degree of estimation uncertainty, relate to the application of well-understood requirements and not the standards themselves.

E. Other Matters – Communications, Specialized Skills or Knowledge and Documentation

ISA 540 (Revised) enhanced the requirements for other aspects of auditing accounting estimates and related disclosures, such as:

- Communication with TCWG, management or other relevant parties;
- Specialized skills or knowledge, including using the work of an auditor's expert; and
- Documentation.

26. Indicate the extent to which you have experienced or 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*.

Issues or Challenges in Applying ISA 540 (Revised)	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Communications					
(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	
Specialized Skills or Knowledge, Including Using the Work of an Auditor's Expert					
(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	
Documentation					
(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.

Input	In our view, the separation of risk assessment processes in audit methodologies and software, reflecting the respective requirements of ISA 315 (Revised 2019) and ISA 540 (Revised), has increased complexity and the risk of inconsistencies in documentation. The need to document inherent risks under two related but distinct frameworks can be time-consuming and is not always intuitive, particularly in engagements involving straightforward accounting estimates. We observe that the lack of integration between the risk assessment requirements of ISA 315 (Revised 2019) and ISA 540 (Revised) can therefore result in the duplication of procedures and documentation effort. These challenges are particularly pronounced for small and medium-sized practices auditing small and medium-sized entities, where accounting
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	estimates are often relatively simple and estimation uncertainty is limited. In such circumstances, the performance and documentation of separate risk assessment processes may be disproportionate to the risks involved and may not enhance audit quality.
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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?

Yes	No	Difficult to Determine	No Response
X			

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)?

Input	If the suggestions made in our responses to questions 13 and 21 are adopted, we consider that an additional benefit will be the streamlining of documentation requirements. Improving alignment between ISA 315 (Revised 2019) and ISA 540 (Revised) in this way, together with clearer guidance on the circumstances in which ISA 540 (Revised) is intended to be applied, would promote more consistent and proportionate documentation practices.
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