

Mr. Tom Seidenstein
Chair of IAASB and Co-CEO of
International Foundation for Ethics
and Audit

Submitted online

Subject: Accountancy Europe accompanying letter to Post Implementation Review Survey ISA 540

Dear Mr. Seidenstein,

Accountancy Europe is pleased to provide its views in response to the IAASB's post-implementation review of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures.

Overall, we consider that ISA 540 (Revised) has broadly achieved its intended objective of strengthening the audit of accounting estimates and enhancing audit quality. Feedback from our members indicates that the revised standard has contributed to improved risk assessment, greater focus on management's methods, assumptions and data. The revised standard has also contributed to more structured and formalised audit approaches.

At the same time, stakeholders identified a number of practical implementation challenges and areas where further support may be beneficial.

First, we believe there are challenges related to scalability and proportionality. While the standard appears to operate more effectively in the context of complex accounting estimates, certain requirements are perceived as disproportionate for simple or low-risk estimates where estimation uncertainty is limited. In some cases, auditors may perform procedures or documentation that provide limited additional audit value. Practical implementation challenges may differ depending on the applicable financial reporting framework, the industry sector and the complexity of the estimates involved. In certain sectors, practical difficulties also arise in obtaining experts with sufficiently independent or differing views to corroborate or challenge management's methods and assumptions, as auditors often rely on a limited pool of specialists.

Second, there are practical difficulties arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment concepts and documentation processes. As ISA 540 (Revised) introduced certain concepts before they were later incorporated more broadly into ISA 315 (Revised 2019), some of our members observed overlap and duplication in practice. In our view, this overlap is one of the areas that the IAASB may wish to consider most closely, as it may be difficult to address through additional guidance alone.

Third, having reflected further on these matters, we observe that some of them, in particular the limited scalability for simple or low-risk estimates and the duplication with ISA 315 (Revised 2019), may be difficult to resolve fully through non-authoritative support alone. The IAASB should consider whether a more streamlined, clearer and proportionate approach, including a more straightforward path for simple estimates, could be achieved. Non-authoritative guidance, practical examples and

implementation support can play a valuable complementary role, but they cannot on their own resolve these underlying issues.

Further outreach and information gathering, including more detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the practical difficulties encountered in applying ISA 540 (Revised). This could help distinguish issues arising from the requirements of the standard itself from those relating to implementation approaches, methodologies, software or training, and support more targeted actions going forward.

We thank you for the opportunity to comment on this important project. For further information on this letter, please don't hesitate to contact Endrin Bitraj at endrin@accountancyeurope.eu.



Eelco van der Enden

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 49 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ISA 540 (Revised) Post-Implementation Survey

Response ID:402 Data

3. 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) : Accountancy Europe

Name(s) of contact(s) for this submission : Endrin Bitraj

Job title or role : Audit and assurance manager

E-mail address(es) of contact(s) : endrin@accountancyeurope.eu

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

Other

Please specify:

Professional Accountancy and Audit Organisation

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

Europe

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

No

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).

Accountancy Europe unites 49 professional organisations from 35 countries that represent 1 million qualified accountants, auditors and advisors.

4. Section III: Overall Questions

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.

Accountancy Europe considers that ISA 540 (Revised) has broadly achieved its intended purpose of enhancing the audit of accounting estimates.

We believe that the revised standard has contributed to improved audit quality, through:

- increased focus on risk assessment and inherent risk factors,
- a more robust understanding of management's methods, assumptions and data,
- stronger challenge of management, and
- greater focus on estimation uncertainty and related disclosures,
- clarification of procedures to audit estimates
- clearer and more structured audit documentation.

The standard has also driven more structured and formalised processes on the part of management and has supported more structured internal approaches within audit firms. However, we also highlighted a number of important challenges in practice. Some aspects of the standard are overly prescriptive and not sufficiently scalable, especially for simple estimates where estimation uncertainty is low. In such cases, auditors may perform procedures that go beyond what is necessary or proportionate.

Members also noted complexity and duplication arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment and documentation. This can result in inefficiencies and disproportionate

documentation.

In addition, certain areas remain difficult to apply in practice, including developing an auditor's point estimate or range, determining how tight such ranges should be, and understanding and testing complex models and data. Applying professional scepticism appropriately also remains a broader challenge particularly with AI models and their black box nature.

Further concerns were raised regarding the potential for auditors to be perceived as taking on a management role when supporting the development of accounting estimates, as well as the risk that the standard may lead to the use of specialists in more situations than necessary.

Overall, while ISA 540 (Revised) has led to clear improvements in the audit of accounting estimates, feedback suggests that further consideration should be given to the scalability, proportionality and practical application of certain requirements.

At the same time, stakeholders identified several critical implementation challenges and areas where further support may be beneficial and consideration of changes to the requirements in the standard may be necessary.

Accompanying this survey response, please also find the cover letter highlighting the key points and observations raised by Accountancy Europe members in relation to the post-implementation review of ISA 540 (Revised). Link:

<https://accountancyeurope.eu/consultation-response/post-implementation-review-survey-isa-540/>

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

Yes

7A. Do you agree that the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) are useful?

3 – Agree

Comments: Accountancy Europe is aware that non-authoritative guidance and implementation support materials have been developed to support the application of ISA 540 (Revised). However, based on feedback from our members, the practical challenges identified in applying the standard suggest that such materials have not fully addressed certain areas of difficulty. There are challenges in areas such as: • developing auditor point estimates or ranges, • determining the appropriate level of work for simple versus complex estimates (scalability), • understanding and testing complex models and data, • obtaining an independent expert review in some sector industries and • applying the requirements in conjunction with ISA 315 (Revised 2019).

5. Section IV: Perceived Benefits from 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.

	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				
(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

Please specify:

The standard has provided a useful framework within audit firms, supporting more structured internal discussions, clearer working paper approaches and more consistent methodologies when auditing accounting estimates.

The implementation of ISA 540 (Revised) has contributed to elevating the overall importance of accounting estimates within both the audit and financial reporting process, leading to increased attention from both auditors and preparers.

6. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised)

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

4 – Significant Issues or Challenges

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

We observed a number of challenges related to scalability and proportionality in the application of ISA 540 (Revised).

While the standard appears to work more effectively for complex accounting estimates, including those involving significant estimation uncertainty or sophisticated valuation techniques, some requirements are perceived as disproportionate for simple or low-risk estimates. In such cases, auditors may perform procedures or documentation that provide limited additional audit value and may, in practice, exceed the level of work performed by management itself.

The extent of these challenges also differ depending on the applicable financial reporting framework. For example, entities applying IFRS may face significantly more complex estimation requirements than entities using local GAAP frameworks that rely more heavily on historical cost accounting. We also observed challenges arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). In practice, this can create duplication in risk assessment concepts, documentation processes and audit methodologies, particularly as ISA 540 (Revised) introduced concepts that were later incorporated more

broadly into ISA 315 (Revised 2019). This may result in inefficiencies and additional documentation burden, including where audit software requires separate documentation processes under both standards.

12. In your view, are the issues or challenges due to a lack of clarity or insufficiency of the requirements or application material in the standard?

Yes

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)?

Further clarification on scalability and proportionality would be helpful, especially regarding how certain requirements should be applied for simple or low-risk accounting estimates where estimation uncertainty is limited.

We also encourage the IAASB to further consider the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), particularly in relation to risk assessment and documentation requirements, with a view to reducing duplication and supporting a more integrated and efficient approach.

7. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

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

	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 observed related to exercising professional skepticism.

Appropriately challenging management's judgments can be difficult, particularly where accounting estimates involve complex models, including increasingly complex AI-driven models used to produce forward-looking estimates, significant judgment or highly subjective assumptions. Challenges also remain in assessing management's selection of methods, assumptions and data, as well as in developing and supporting auditor point estimates or ranges.

In some areas, auditors may also face difficulties in identifying appropriate benchmarks or obtaining access to specialists and experts with the necessary expertise to evaluate complex estimates, models or assumptions. This can be particularly challenging for smaller firms or in highly specialised industries. In certain sectors, the pool of available experts may be relatively limited, making it more difficult to obtain alternative perspectives or challenge management assumptions effectively.

In addition there are challenges in identifying and responding to potential indicators of management bias. In practice, management bias is often considered as a more pervasive financial statement level risk rather than being linked to a specific assertion or estimate. In addition, auditors may face difficulties in actively identifying contradictory audit evidence, rather than relying primarily on corroborative evidence obtained during the audit process.

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?

Difficult to Determine

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)?

Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the nature and causes of these challenges and whether they arise from the requirements of the standard itself or from implementation in practice.

The IAASB may wish to consider the most appropriate way to address the challenges identified, with a focus on enhancing simplification and proportionality in the application of ISA 540 (Revised).

8. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

18. Indicate the extent to which you have 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*.

	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			
(f) Whether any of the assessed risks of material misstatement are significant risks.		X			

18A. 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.

The separation of risk assessment requirements under the two standards can create duplication, increased documentation burden and operational inefficiencies. Feedback indicated that audit methodologies and software often separate the documentation processes under ISA 315 and ISA 540, resulting in parallel, and in worst case different, assessments of inherent risk and additional work effort.

We also observed uncertainty regarding when the more detailed requirements of ISA 540 (Revised) are expected to apply,

particularly where estimation uncertainty is limited. Clearer integration between the two standards and clearer criteria regarding scalability and applicability could support a more coherent and proportionate risk assessment process.

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

We also observed that the challenges related to risk assessment procedures are more significant for accounting estimates involving greater estimation uncertainty, complexity or judgment, particularly where complex models, assumptions or data are involved. By contrast, some requirements may appear less proportionate for simple or low-risk estimates where estimation uncertainty is limited.

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

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)?

Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the practical challenges encountered in applying the risk assessment requirements of ISA 540 (Revised).

The IAASB may wish to assess whether the challenges identified reflect implementation issues or whether further consideration of certain requirements in ISA 540 (Revised) may be appropriate. The aim should be to reduce duplication and avoid unnecessary documentation and work effort for auditors in practice while supporting high quality audits.

At the same time, stakeholders identified several critical implementation challenges and areas where further support may be beneficial and consideration of changes to the requirements in the standard may be necessary.

9. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

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

	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		X			
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.			X		
(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. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates*.

	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 judgments give rise to indicators of possible management bias.		X			
(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. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

	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 that were different from management's models and assumptions.	X				

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

We observed challenges in determining the most appropriate audit response to assessed risks related to accounting estimates, particularly whether to test management's process or develop an independent auditor point estimate or range.

Practical difficulties also remain in developing and supporting auditor ranges, including determining how tight such ranges should be and how they should be evaluated where they differ from management's estimates.

In addition, we observed challenges in understanding and testing complex models and related data used by management.

Concerns were also raised regarding maintaining objectivity where auditors propose adjustments based on auditor-developed estimates or assumptions.

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?

Difficult to Determine

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)?

The challenges identified relate in particular to developing and evaluating auditor point estimates or ranges, understanding and testing complex models, and maintaining auditor objectivity when auditor-developed assumptions are used.

Further outreach and information gathering, including detailed feedback and root cause analysis from inspection and oversight bodies, may help the IAASB better understand the practical difficulties encountered in these areas and whether they arise from the requirements of the standard itself or from implementation in practice.

Whether through implementation support, standard-setting activities or a combination of both, the objective should be to promote a more proportionate, simplified and streamlined application of ISA 540 (Revised).

10. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

26. Indicate the extent to which you have 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*.

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Communication (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.

We observed practical challenges related to the involvement and use of specialists in the audit of accounting estimates, particularly for complex estimates involving significant judgment, complex models or specialised data. At the same time, concerns were raised that the standard may create a perception that the use of specialists is required more frequently than necessary.

We also observed significant practical challenges related to documentation requirements, particularly in relation to documenting risk assessments, auditor ranges and the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019).

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?

Difficult to Determine

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)?

In less complex circumstances and for smaller audit engagements, challenges relating to the application of the requirements concerning specialised skills or knowledge and documentation were observed.

The IAASB may wish to consider whether opportunities exist to further simplify and streamline these requirements, while maintaining audit quality and promoting a more proportionate approach. Particular attention could be given to clarifying expectations regarding the involvement of specialists and experts, as well as avoiding unnecessary documentation and work effort where accounting estimates are straightforward and the associated risks are lower.

At the same time, stakeholders identified several critical implementation challenges and areas where further support may be beneficial and consideration of changes to the requirements in the standard may be necessary.