

ISA 540 (Revised) Post-Implementation Survey

Response ID:332 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) : Baker Tilly International

Name(s) of contact(s) for this submission : Andrew Paul, Ayushi Badhwar

Job title or role : Audit Technical Director, Audit Technical Manager

E-mail address(es) of contact(s) : andrew.paul@bakertilly.global, ayushi.badhwar@bakertilly.global

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

Accounting Firm

Specify the type of accounting firm you represent:

Global accounting firm

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

Global

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).

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.

ISA 540 (Revised) has delivered clear benefits in strengthening the audit of accounting estimates, particularly through a more structured and risk-focused approach. There is now increased emphasis on understanding and evaluating internal controls relevant to estimates, as well as enhanced risk assessment procedures. Engagement teams more consistently consider inherent risk factors and control risk when assessing estimates, rather than relying on prior year approaches or materiality thresholds alone. This has led to more robust identification of higher-risk estimates and a more thoughtful assessment of areas involving complexity, subjectivity, and estimation uncertainty.

In practice, this has resulted in audit procedures being more clearly tailored to the assessed level of risk for each estimate, rather than applying standardised or routine procedures. There has also been a noticeable improvement in the quality of documentation, including clearer articulation of the rationale for estimation methods, key assumptions, and data sources. In addition, the standard's focus on management bias has driven increased attention to estimates within the context of fraud risk, with more explicit consideration and documentation of how subjectivity and judgment could give rise to potential bias. Overall, ISA 540 (Revised) has enhanced consistency in application across the network and improved the clarity and transparency of audit judgments in relation to accounting estimates. While the extent of improvement may vary depending on engagement complexity and team experience, the direction of change is positive and aligned with the IAASB's objective of improving audit quality in this area.

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: The non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised) have generally been useful in facilitating understanding and practical application of the standard. Materials such as illustrative examples, flowcharts, and implementation tools have helped translate the principles-based requirements into more actionable approaches, particularly in demonstrating how the standard can be applied to both simple and complex accounting estimates. These tools have also supported the global office and firms in developing internal methodologies and training programmes, particularly by providing practical insights, examples, and "what, why, and how" considerations for key aspects of the standard. However, while the guidance is helpful, its effectiveness can vary depending on the complexity of engagements and the experience of audit teams. In particular, further practical examples and guidance on scalability and application in less complex environments would enhance consistency and ease of implementation across the network.

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:

One additional benefit of ISA 540 (Revised) has been the shift away from standardised or "roll-forward" approaches toward more entity-specific and risk-based audit work. The standard has reinforced the need for auditors to justify their approach based on current-year facts and circumstances, which has strengthened the robustness and relevance of audit evidence obtained for accounting estimates. This has also contributed to improved linkage between risk assessment, audit procedures, and

conclusions.

In addition, the revised standard has driven improvements in audit quality through enhanced documentation, particularly around assumptions, data, and management bias, as well as the increased integration of estimates into fraud risk considerations, which has supported stronger inspection readiness and more robust audit files, with clearer evidence of challenge and justification of key judgments. It has also led to greater alignment between audit methodology, training, and findings from quality reviews, contributing to more consistent focus on high-risk estimates across the network.

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

3 – Moderate Issues or Challenges

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

Although ISA 540 (Revised) is designed to be scalable, there are notable challenges in achieving proportional application in practice, particularly for less complex entities. The enhanced requirements especially in relation to understanding management's processes, evaluating controls, and documenting inherent risk factors and the spectrum of risk, have led to a significant increase in time and effort devoted to planning and risk assessment for estimates. In some cases, this has resulted in procedures and documentation that are not fully proportionate to the level of estimation uncertainty or risk, creating a more compliance-driven approach.

These challenges are more pronounced in SME audits, where entities often lack mature control environments or formalised documentation (e.g., process flowcharts), making it difficult to apply the standard in a scalable manner. In such environments the benefit to audit quality is significantly outweighed by the increased effort required. While methodologies and training initiatives have sought to support scalability, there remains inconsistency in how auditors interpret and apply a proportionate approach, suggesting that further practical guidance, particularly for low-risk or routine estimates would assist in achieving more consistent and efficient application across engagements.

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)?

The IAASB could enhance the effectiveness and consistent application of ISA 540 (Revised) by developing additional non-authoritative guidance focused on scalability and proportionality. In particular, more practical examples illustrating how the standard can be applied to low-risk or routine estimates and in SME environments would be beneficial. While existing materials are helpful, audit teams would benefit from clearer guidance on how to appropriately scale procedures and documentation where estimation uncertainty and risk are low, without defaulting to a compliance-driven approach. Consideration could also be given to providing industry-specific examples and guidance on the use of technology and data in auditing estimates, areas where current materials are more limited.

Finally, the IAASB could consider whether targeted supporting materials are needed to better reinforce proportionality and avoid unintended consequences, such as excessive documentation or reduced focus on simpler estimates.

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

14. Indicate the extent to which you have experienced or are aware of the following issues or challenges in applying 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 encountered related to exercising professional skepticism.

A key challenge in exercising professional scepticism relates to the insufficient depth of challenge over management's assumptions, particularly in complex or judgmental areas such as external valuations. Audit teams may rely on management or third-party experts without adequately assessing the relevance, reasonableness, and consistency of underlying assumptions, or sufficiently challenging whether they reflect current market conditions and entity-specific factors.

There are also challenges in identifying and responding to indicators of management bias, with auditors sometimes focusing on confirming the "reasonableness" of estimates rather than actively considering alternative assumptions or contradictory evidence. In addition, documentation does not always clearly demonstrate how contradictory evidence has been identified and evaluated, suggesting a tendency to place greater reliance on corroborative evidence.

Overall, while ISA 540 (Revised) has strengthened expectations around professional scepticism, consistent application in practice remains dependent on auditor experience, training, and engagement culture, and continues to be an area of focus in both regulatory inspections and internal quality reviews.

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?

No

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)?

The observed challenges are not primarily due to a lack of clarity or insufficiency in the requirements of ISA 540 (Revised). The standard is generally clear and comprehensive in setting out expectations regarding professional skepticism, including the need to evaluate management bias, challenge assumptions, and consider contradictory evidence.

Rather, the challenges are more closely linked to practical implementation and auditor behaviour in applying the standard. Issues such as insufficient challenge of assumptions, over-reliance on management or experts, and limited consideration of alternative outcomes arise from inconsistent application of the requirements, rather than ambiguity in the standard itself. In particular, exercising professional scepticism effectively requires a combination of experience, training, and engagement team culture, which can vary across regions and engagements.

That said, additional practical guidance and illustrative examples particularly demonstrating how to apply scepticism in complex or judgmental areas (e.g., external valuations, use of experts, retrospective review) would further support consistent application across firms and jurisdictions.

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

18. Indicate the extent to which you have experienced 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		

18B. 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*.

	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.			X		
(b) The time and effort required to perform a retrospective review outweigh the perceived benefits for audit risk assessment.			X		

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

The main challenges in relation to risk assessment procedures relate to inconsistent execution and depth of application rather than conceptual difficulties. In practice, certain elements, such as retrospective review and linking prior outcomes to current-year risk assessment, are not always performed or clearly evidenced.

These challenges arise across both complex and routine estimates. While complexity increases the need for judgment and challenge, simpler estimates at times remain unidentified/ documented or receive insufficient attention, particularly where focus is directed toward higher-risk areas.

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?

No

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)?

The observed issues are not primarily due to a lack of clarity in the requirements of ISA 540 (Revised). The standard is generally clear in its expectations around risk assessment, retrospective review, management bias, and the need to tailor procedures to the assessed risks. The issues appear to arise more from inconsistent application in practice, including auditor judgment, execution, and documentation. Having said that, additional practical examples would be helpful for retrospective reviews.

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

22. Indicate the extent to which you have experienced 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 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			
(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 experienced 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			

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

The main challenges in responding to assessed risks relate to the practical application of the audit response, including determining the most appropriate testing approach, evaluating whether controls should be tested, and sufficiently challenging management's methods, assumptions and data. Auditors do not always apply a sufficient level of scrutiny to assumptions used in estimates, particularly in external valuation reports, and that considerable effort has been required to develop templates and support more robust documentation.

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?

No

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)?

n/a- the standard is generally clear in setting expectations around methods, assumptions, data, controls and documentation. The challenges observed appear to arise more from implementation in practice, including the level of auditor experience, scepticism and consistency of execution.

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

26. Indicate the extent to which you have experienced 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.

The main challenges relate to depth of documentation and the effective use of specialist input. Audit teams do not always sufficiently challenge assumptions used in external valuation reports, and reliance on management or third-party experts can occur without adequate evaluation of the underlying methods and data.

In addition, the enhanced documentation requirements under ISA 540 (Revised) have resulted in a significant increase in audit effort, with some variability in how clearly audit judgments, risk assessments, and conclusions are documented across engagements. These challenges are more evident for estimates involving greater complexity or judgment, although they can also arise where processes and controls are less formally established, such as in SME environments.

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?

No

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)?

The challenges observed are not primarily due to a lack of clarity in ISA 540 (Revised). The requirements relating to documentation, communication, and use of experts are generally clear. The issues are more closely linked to practical application, auditor experience, and consistency of execution, particularly in exercising sufficient challenge and documenting conclusions.

Having said that, IAASB could best address these challenges through additional non-authoritative guidance and practical examples. In particular, further illustrative material would be helpful on how to evaluate the work of external experts, challenge assumptions in valuation reports, and document key judgments in a proportionate manner.