ISA 540 (Revised) Post-Implementation Survey

Response ID:416 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) : Deloitte Touche Tohmatsu Limited
Name(s) of contact(s) for this submission : Dora Burzenski
Job title or role : Managing Director, Audit & Assurance
E-mail address(es) of contact(s) : dburzenski@deloitte.com

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.

Overall, ISA 540 (Revised) has achieved its intended purpose; however, we believe the standard is most relevant when the estimation uncertainty, complexity or subjectivity are high.

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?

Comments:

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.					
(b) Greater consideration of the skills and competencies of the engagement team, including the need to involve specialists or experts.					
(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).					
(d) Better or more focused assessments of the risks of material misstatements for accounting estimates.					
(e) More focus on understanding and testing controls related to accounting estimates.					
(f) Increased auditor attention to disclosures related to accounting estimates, including disclosures about estimation uncertainty.					
(g) Enhanced interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates.					
(h) Enhanced quality of financial reporting related to accounting estimates.					

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:

Overall, ISA 540 (Revised) has achieved its intended purpose; however, we believe the standard is most relevant when the estimation uncertainty, complexity or subjectivity are high.

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.

2 – Minor Issues or Challenges

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

Scalability is an important aspect of ISA 540 (Revised) as risks related to accounting estimates exist along a spectrum, with some estimates involving limited estimation uncertainty and others involving significantly greater complexity and judgment. While auditors and firms have developed methodologies that recognize this spectrum of risk, challenges remain in applying the standard in a sufficiently proportionate manner to estimates at the lower end of the spectrum. In particular, for estimates with low estimation uncertainty, the effort required to comply with the standard can in some cases appear disproportionate to the nature and assessed risk of the estimate. In some instances, the concepts in this standard may not be relevant when estimation uncertainty is negligible. In such cases, the concepts in other ISAs may be sufficient (e.g., ISA 330 or ISA 520).

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?

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)?

Additional guidance would be helpful to more clearly articulate how the requirements in ISA 540 (Revised) are intended to operate in a risk-based and proportionate manner. Because risks related to accounting estimates exist along a spectrum, the nature, timing, and extent of the auditor's procedures should align with the degree of estimation uncertainty and the assessed risk of material misstatement. In practice, this is particularly important for estimates at the lower end of the risk spectrum. For example, routine accounting estimates with negligible estimation uncertainty, such as certain accruals, generally do not warrant the same extent of procedures and documentation as estimates involving greater complexity, subjectivity, or inherent risk. The IAASB could best address this challenge by illustrating how to apply the standards effectively.

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.					
(b) Identifying and appropriately responding to potential indicators of management bias in the development of accounting estimates.					
(c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory.					

15. Briefly describe these or any other issues or challenges you encountered related to exercising professional skepticism.

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?

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)?

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.					
(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)).					
(c) Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation (i.e., the retrospective review of accounting estimates).					
(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.					
(e) The separate assessments of inherent and control risk relating to an accounting estimate.					
(f) Whether any of the assessed risks of material misstatement are significant risks.					

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.

Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation, is an important step in the risk assessment process. However, for estimates with low estimation uncertainty, we have found that the time and effort to perform a retrospective review does not align with, and may outweigh, the benefit obtained from this procedure.

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?

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)?

While we support the objective of a retrospective review where it provides meaningful insight into management's estimation process, potential bias, or changes in circumstances, there is a need for further guidance on the application of these reviews in practice. For example, additional guidance may include examples of when it is necessary to perform a retrospective review based on the objective of this procedure.

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).					
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.					
(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).					
(d) Testing how management made the accounting estimate.					
(e) Developing an auditor's point estimate or range.					
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.					
(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).					

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.

Emerging Technologies:
Management's development of an estimate may involve complex modelling. With the use of emerging technologies, these "black box" models used in developing estimates are becoming increasingly challenging for the entity and the auditor.

Developing an auditors point estimate or range:
We appreciate that the requirements in ISA 540 (Revised), as it relates to the development of the auditor's range, allow for the appropriate level of professional judgement to be applied by the auditor. In practice, however, we have seen where auditor judgment has come into question given that a small change in assumption can result in a wide range of reasonable outcomes.

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?

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)?

Emerging Technologies:
We acknowledge and support the recently formed multi-stakeholder Technology Expert Panel to support the development of guidance. As technologies continue to modernize business operations, corporate reporting processes, and auditing techniques, it will be important for the IAASB to stay connected with the profession on ways technology is being used in the audit and

whether more substantive changes are needed to keep the standards relevant and workable in practice.

Guidance may be needed to address the application of ISA 540 (Revised) including, when testing management's accounting estimates developed using "black box" AI models. This may be considered as part of this post-implementation review process or as part of the broader technology project.

Developing an auditors point estimate or range:
Due to the challenges described in Question 23. above, we believe it would be beneficial for the IAASB to provide illustrative examples related to more complex estimates where an auditor's approach to responding to the assessed risk of material misstatement includes developing an auditor's independent range.

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).					
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).					
Documentation (c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (Revised).					

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.

Management's Expert:
The auditor's evaluation of a management's expert, including assessing their competence, capabilities and objectivity, as well as obtaining an understanding of and assessing their work, will become more challenging due to complexities arising from the use of emerging technologies in developing estimates.

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?

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)?

Management's Expert:
We believe there would be a benefit in providing additional guidance to support consistent application of the standard.