

# ISA 540 (Revised) Post-Implementation Survey

Response ID:256 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) : Forvis Mazars Global Limited

Name(s) of contact(s) for this submission : Jon Seaman

Job title or role : Partner

E-mail address(es) of contact(s) : jon.seaman@mazars.co.uk

### 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.

For PIE and large/complex entities, we consider that ISA 540 (Revised) has met its objectives as it has driven more granular risk assessments and consideration of the risks linked to estimates. Evidence of professional scepticism and challenge has increased as well, due to the more prescriptive requirements in the new standard.

The standard is, however, not considered to be appropriately scalable for less complex entities. In these instances teams have spent a disproportionate amount of team complying with the requirements of the standard, without adding value to the overall audit approach.

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

No

## 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 –<br>Strongly<br>Agree | 3 –<br>Agree | 2 –<br>Disagree | 1 –<br>Strongly<br>Disagree | 0 – No<br>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?**

No

## 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.**

As noted above, the standard is not effective for less complex entities and also requires consideration of all estimates, which can mean that the audit team loses sight over the key estimates and can focus their audit efforts in this direction.

**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)?**

Additional guidance could be issued to make it clear that the standard only applies to 'critical' management judgements and this could then be aligned with the disclosures in the financial statements, linked to management's key judgements etc.

## 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 –<br>Significant<br>Issues or<br>Challenges | 3 –<br>Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No<br>Issues or<br>Challenges | 0 – No<br>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.**

**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 Response

**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 –<br>Significant<br>Issues or<br>Challenges | 3 –<br>Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No<br>Issues or<br>Challenges | 0 – No<br>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.**

We consider that the new standard provided more explicit requirements than the original but the spirit and the intention remained unchanged.

**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 –<br>Strongly<br>Agree | 3 –<br>Agree | 2 –<br>Disagree | 1 –<br>Strongly<br>Disagree | 0 – No<br>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 issue with a retrospective review is that people use the benefit of hindsight when evaluating the accuracy of previous estimates. This has been a common issue with regulatory reviews for example

**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?**

Difficult to Determine

**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)?**

## 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 –<br>Significant<br>Issues or<br>Challenges | 3 –<br>Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No<br>Issues or<br>Challenges | 0 – No<br>Response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| <b>Responses to the Assessed Risks of Material Misstatement</b>                                                                                                                                                                                                                                                                                                         |                                               |                                            |                                      |                                   |                    |
| (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                                    |                                   |                    |
| <b>Overall Evaluation</b>                                                                                                                                                                                                                                                                                                                                               |                                               |                                            |                                      |                                   |                    |
| (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                                    |                                   |                    |

**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 challenges relate primarily to the fact that the estimates have a high degree of estimation uncertainty or complexity.

**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)?

## 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 –<br>Significant<br>Issues or<br>Challenges | 3 –<br>Moderate<br>Issues or<br>Challenges | 2 – Minor<br>Issues or<br>Challenges | 1 – No<br>Issues or<br>Challenges | 0 – No<br>Response |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------|--------------------------------------|-----------------------------------|--------------------|
| <b>Communication</b><br>(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                                 |                    |
| <b>Specialized Skills or Knowledge, Including Using the Work of an Auditor's Expert</b><br>(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                                 |                    |
| <b>Documentation</b><br>(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.

Again, here we consider that the new standard clarified the expectations of the original version of ISA 540 and as such it did not have a substantive change in the work performed.

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)?