ISA 540 (Revised) Post-Implementation Survey

Response ID:418 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) : ICAEW
Name(s) of contact(s) for this submission : Helen Pierpoint
Job title or role : Technical Manager, Auditing Standards
E-mail address(es) of contact(s) : helen.pierpoint@icaew.com

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

Professional Accountancy or Professional Organization (PAOs)

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?

Yes

4A. Please provide further information about your outreach activities, including:

The manner in which the outreach was undertaken. : We convened a Working Group (WG) of volunteers to help us prepare our response. The WG was made up of representatives from a range of UK audit firms. We also requested comment from several of our standing committees and panels, including our Technical and Practical Audit Committee (TPAC), ISA Panel, and Practice Committee. Members of these groups include experienced audit partners, audit methodology providers, and preparers.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : About 40

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).

ICAEW

This survey response of 15 June 2026 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 32,000 members working in both practice and in business, as well as in organisations of all sizes in the private and public sectors.
ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 210,000 members and students around the world. 98 of the top 100 global brands employ ICAEW Chartered Accountants. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

Soliciting stakeholder views with questionnaires

We have concerns about the questionnaire format as a way of seeking feedback from stakeholders.
We acknowledge that questionnaires can be an efficient and effective way of gathering and measuring views, but they can limit stakeholders' ability to make more nuanced points.
We draw attention to question 18B of this questionnaire . Two statements are provided with which respondents can agree or disagree to a greater or lesser extent.
We found it difficult to either agree or disagree with the statement 'the time and effort required to perform a retrospective review

outweigh the perceived benefits for audit risk assessment'. The statement may be true or untrue depending on the specifics of both the audit engagement and the individual accounting estimates.
Similarly, many questions ask about whether the observed issues or challenges due to a lack of clarity or insufficiency of the requirements or application material. The distinction between shortcomings in the requirements, and shortcomings in the application material is critical in some cases but this point is not easy to convey.

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.

Aim (a)

We believe that the IAASB's revisions to ISA 540 have enhanced audit quality in relation to accounting estimates by driving:
• a greater emphasis on risk assessment, and a risk-based approach to accounting estimates (AEs), including the auditor's consideration of inherent risk factors
• a more robust understanding of management's processes and controls
• enhanced professional judgement and scepticism
• clarity around the audit documentation required..
However, our responses to the following questions highlight challenges that auditors encounter when applying the revised standard in practice.

Scalability for simple estimates

The level of prescription of certain risk assessment requirements can be difficult and inefficient to apply to simple estimates. For example, there is little value, in performing a retrospective review of estimates based on transparent level 1 inputs to fair value measurements.
For simple estimates with low estimation uncertainty, auditors can obtain compelling audit evidence over the related assertions by forming their own independent estimate rather than testing management's processes. However, the auditor is still required under the revised standard to obtain a detailed understanding of management's processes to produce the estimate. In such cases auditors can find themselves performing more work than management. The revised standard also struggles to differentiate between the approach to large, complex financial institutions, for example, and smaller less complex institutions providing the same services.
The revised standard places significant emphasis on the use of experts, potentially leading to unrealistic expectations regarding the extent of their use, as well as overuse. particularly for less complex estimates.

Scalability for highly complex estimates

For estimates with high estimation uncertainty, the auditor's calculated range of reasonable estimates may significantly exceed performance materiality and even overall materiality. Addressing such situations is still presenting a challenge for firms, particularly in the audits of financial institutions.
The use of AI and machine learning in producing complex, forward-looking estimates such as expected credit losses is increasingly prevalent in the financial services sector and the challenges this presents are likely to grow. The 'black box' nature of these processes makes it more difficult for auditors to apply professional scepticism. There is a very real risk that auditing standards will be overtaken by these technologies, which are still treated as simply a means to an end, rather than having a more fundamental impact on what management and auditors do.
Interaction with ISA 315 (Revised)
ISA 540 (Revised) and contains much material from ISA 315 (Revised) that is repeated or summarised, but with little focus or specificity. In practice, this leads to duplication of effort and inefficiency.

Suggestions

Additional guidance alone will be insufficient to address the significant structural scalability challenges arising from ISA 540

(Revised). We therefore suggest:

• transferring disproportionate requirements (such as para. 14) for less complex estimates with low estimation uncertainty to the application material with additional guidance regarding when that material applies
• adding application material clarifying that if the auditor intends to form their own independent estimate, the depth of understanding required by the auditor of management's processes for producing simpler estimates, is a matter of professional judgment
• reconsidering how the relationship between ISA 540 and ISA 315 can be better articulated to support a more integrated audit approach.
We also suggest that the IAASB considers alternatives to questionnaires to solicit views – particularly when it comes to more complex aspects of auditing such as AEs, and how its ongoing Technology Position initiatives can support auditors faced with auditing highly complex estimates produced using AI.
We are aware of proposals for narrow scope amendments to the standard to exclude low risk and low estimation uncertainty estimates. This has the potential to limit the potential for over-auditing of such estimates. Auditors of less complex audit entities, whose estimates are often low risk, need to work through the application material to determine how to scale the standard which is burdensome and should not be necessary.

Aim (b)

Please see our response to question 7A.

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 tools the IAASB has produced have broadly supported effective implementation of the standard. The IAASB's: • flowchart of the key requirements relating to the three testing approaches • publication demonstrating simple and complex illustrative examples • publication demonstrating illustrative examples in relation to expected credit losses have been particularly useful. However, we suggest that consideration be given to producing guidance for auditors addressing some of the practical challenges in applying the standard, as noted in our response to question 6. This could include: • further guidance to help auditors appropriately scale the standard to estimates with a range of complexities and risk profiles, particularly low-risk and low-estimation uncertainty estimate – although narrow scope amendment to the standard to exclude such estimates would achieve the same objective • illustrative examples addressing, for example, how auditors might approach auditing AEs of financial institutions with smaller and simpler portfolios. as well as the approach to larger and more complex institutions. • illustrative examples demonstrating circumstances in which the use of experts may and may not be necessary. In our 2017 response to the IAASB's consultation on the revised standard, we called for guidance on the application of ISA 540 to the financial sector. Our response to question 6 highlights two issues that are of particular concern regarding these audits of entities: the increasing use of emerging technologies to produce forward-looking estimates and situations in which the auditor's range of reasonable estimates exceeding materiality. Further non-authoritative guidance addressing these issues would be welcome.

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.					
(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:

Our answer to this question is 'no', but this option did not permit comment, so we have answered 'yes;.

Greater consideration of the skills and competencies of the engagement team, including the need to involve specialists or experts

Those we consulted agreed that the standard has driven improved consideration of the need to involve specialists or experts. However, concerns were expressed about way the standard leading to a presumption that the use of such specialists or experts is expected and required in more circumstances than the IAASB intends. Unrealistic expectations about the use of specialists and potential overuse need to be addressed.
Skills and competencies of the engagement team: the quality of audit work around AEs remains inconsistent. The reasons for this include firm-related issues, a lack of understanding of the standard by individual auditors, and regulatory pressures. These issues cannot be resolved by simply finessing the wording of auditing standards.

More focus on understanding and testing controls

We agree that the revised standard has increased auditor focus on controls. However, we are uncertain to what extent it has driven more testing of controls as an increasing numbers of audits, particularly larger audits where analytics are used extensively, focus on substantive procedures. Many AEs, by nature, do not lend themselves well to controls that auditors can test.

Better quality financial reporting

An indirect benefit of a financial statement audit can be an improvement in the quality of financial reporting. However, it is not the purpose of auditing standards to drive better financial reporting practices.

While the benefit is indirect, we agree that improved financial reporting and other processes related to AEs are benefits arising from the revised standard. A representative from a UK building society said:
'ISA 540 (Revised) has strengthened (…) governance and transparency over accounting estimates in relation to IFRS 9 expected credit losses. It has driven clearer articulation of assumptions, improved audit trail, and enhanced Audit Committee oversight.'

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.

The introduction of the three inherent risk factors and the inherent risk spectrum, with accompanying scalability guidance, has improved focus on high-risk areas.
However, the level of prescription of some of the risk assessment requirements remains a challenge. Paragraph 14 is difficult to scale, particularly for very simple AEs where estimation uncertainty is low. There may be little value in performing a retrospective review of these estimates and management themselves may have deemed it unnecessary.
The risk of over-auditing generally, including simpler estimates, should not be ignored by standard-setters. The auditor is required to gain a detailed understanding of management processes for preparing estimates, no matter how simple. This is of little value when the approach to testing is for the auditor to develop their own estimate rather than testing management's processes.
These issues are not only relevant to audits at opposite ends of the scale. The standard does not sufficiently distinguish between entities with estimates of differing complexities within the same sector, such as those relating to multinational banks and small, local financial institutions.
In such cases, auditors may find themselves performing more work than management.

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)?

We do not believe that guidance alone is sufficient to address the substantial scalability and proportionality issues we have identified. We therefore suggest that the IAASB considers the need to revise the standard by:
• moving certain risk assessment requirements such as paragraph 14 to the application material with additional guidance covering when they are relevant, or making them conditional requirements
• clarifying to the application material to explain that the auditor should apply professional judgment when considering the work effort needed to understand management's processes for simpler estimates where the auditor intended to develop independent estimates.

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.

Applying professional scepticism appropriately remains a challenge generally. The standard does promote more robust challenge of management, but there is only so much the wording of an auditing standard can do to promote professional judgement and scepticism.

The increasing use of AI-based solutions to produce complex, forward-looking estimates such as expected credit losses often require the exercise of a high level of judgment by management and auditors. However, the internal processes involved in arriving at such estimates can make them exceptionally difficult to understand, which has implications for the work effort required to apply appropriate judgment and scepticism, and the nature and extent of evidence that can be expected of management.

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)?

As noted in previous responses to the IAASB, an auditing standard, no matter how carefully crafted and no matter how many times it mentions professional judgment and scepticism, cannot compel auditors to exercise them appropriately.

Achieving the required change in auditor behaviour is a broader issue requiring a holistic response from firms, professional bodies, regulators, standard-setters and others.
We draw the IAASB's attention ICAEW's Professional Judgement hub. Of note is the Applying Professional Judgment in Audit e-learning programme.

We note that the IAASB is actively exploring how it can support auditors to manage the challenges associated with technology and audit. We hope this work will consider guidance exploring at how auditors might approach complex, forward-looking estimates produced using AI.

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.

We note significant issues with reviewing the outcome of previous accounting estimates for low risk and low estimation uncertainty estimates, and the need to understand managements processes in such cases. We also note inefficiencies in audit arising from duplication of material across ISAs 540 (Revised) and 315 (Revised) and a lack of focus, specificity and tailoring of the latter to the former, paragraph 13 of ISA 540 revised being one example.

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

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

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)?

The IAASB can best address the lack of clarity regarding the interaction of ISAs 540 (Revised) and ISA 315 (Revised) through targeted removals of content from the former that is already sufficiently articulated in the latter.

Please also see our response to question 13.

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		

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.

Determining response(s) to assessed risks, paragraph 18

The revised standard does not mandate either:
• testing how management made the accounting estimate; or
• developing an auditor's point estimate or range.

For estimates with very low estimation uncertainty such as valuations based on observable market prices, it is often more efficient for auditors to form their own independent estimates rather than testing management's processes. However, auditors must still fulfil the requirement to obtain a detailed understanding of management's process to produce that estimate which is often disproportionate.

Determining whether to test the operating effectiveness of controls

Estimates by nature, or certain elements thereof, do not always lend themselves well to controls that can be used by auditors. Controls over how data is sourced and maintained are often easily identifiable and decisions to test operational effectiveness are relatively easy to make, based on need or efficiency. For key assumptions though, less assurance can be provided based on the operation of a control, the executors of which are typically subject to bias.

Evaluating identified misstatements

We suggested in our 2017 response that the IAASB should more clearly address situations in which high levels of estimation uncertainty result in the range of reasonable estimates being many times materiality for the entity as a whole.

This issue still presents a challenge, particularly in financial services audits.

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

Yes

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)?

Determining the most appropriate response(s) to assessed risks paragraph 18

Please see our response to question 13.

Determining whether to test the operating effectiveness of controls

ISA 540 (Revised) should be agnostic regarding the auditor's determination of whether controls testing is appropriate. Such a determination is a matter of judgment based on the auditor's understanding of the entity, estimate, and control environment.

Evaluating identified misstatements

We suggest that non-authoritative guidance be issued.

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.

Determining when it is appropriate to involve an auditor's expert

Please see our response to question 9.

Preparing appropriate audit documentation

We have no significant issues with the documentation requirements of the standard. However, meeting these requirements in relation to estimates which are themselves a collection of several smaller estimates can be challenging.

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

Yes

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)?

Determining when it is appropriate to involve an auditor's expert

We suggest that the IAASB produce illustrative examples highlighting circumstances in which the use of experts may – and those in which they may not – be necessary

Preparing appropriate audit documentation

ISQM 1 is based on the presumption of proportionality in all areas, including documentation. Guidance emphasising this, and what it means in the context of estimates, would be helpful.