ISA 540 (Revised) Post-Implementation Survey

Response ID:350 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) : Instituo Mexicano de Contadores Publicos
Name(s) of contact(s) for this submission : Fernando Ruiz Monroy
E-mail address(es) of contact(s) : ferruizm@outlook.com

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

Jurisdictional Standard Setter (JSS) or Other Standard Setter

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

North America

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).

This response has been prepared under the role of assurance practitioners auditing engagements that include complex and less complex estimates across different industries and sizes of entities.

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.

We consider that the revised standard has achieved its intended purposes taking into account the current business models & environment across the different types of industries. Nonetheless, we recognize that challenges have been faced and continue to be present in practice for both, the auditor and management of the entities. We also highlight that changes may be needed going forward as technology developments and other factors such as AI could evolve and affect the way estimates are prepared, recognized and disclosed in the financial information. Scalability continues to be point for consideration regardless of the size & industry of the entity and the LCE standard available for jurisdictions to be implemented / applied. We also keep in mind that ongoing current projects such as the revisions of ISA 330 and ISA 500 may derive consequential amendments to ISA 540 revised in order to aligned final requirements and application materials once the exposure draft period and final approval have been achieved.

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: We consider that the materials have supported the implementation and application of the standard over these past

years for different sizes of audit firms, considering that more structured firms have also developed its own methodology and materials to supplement the operability of the requirements. We also think that an additional set of updated FAQs and examples with challenges and experiences from the application of ISA 540 revised, resulting from the PIR outcome, could assist practitioners during the upcoming audit cycles. In addition, we may recommend that the material related to "Linkages between ISA 540 (Revised) and Other ISAs" includes a direct reference to ISA 240. This is based on the need to make the auditors aware of the risk of fraud in connection with accounting estimates. ISA 540 has specific reference on paragraph A136; however, the above mentioned material omits such reference.

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:

Benefits are in general consistent with what we have observed in practice and the feedback received from practitioners. No doubt that the robustness of processes has improved the interaction between the audit teams, including specialists and experts, with management and those charged with governance. Regarding the focus on testing controls related to accounting estimates, we have not observed that this is the preferred approach from audit teams as most of the responses to the risk of material misstatement relates to the application of substantive testing.

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.

3 – Moderate Issues or Challenges

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

Since the implementation of the ISA 540 revised we have observed that engagement teams went over and continue to face a series of challenges to balance the amount of audit work in relation to the different types of estimates and such work also varied depending on the size of the entity and the related industry. They might had had and still have the perception that all estimates needed a great deal of audit evidence regardless of its complexity. The risk of over auditing is a fact. More structured audit firms provided additional support with global methodologies and more detailed training which helped to balance the amount of effort (scalability) but for SMP the challenges were greater. As of now, we consider that the requirements and EEM included in the LCE standards have alleviated these concerns.

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?

Difficult to Determine

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 consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. We do not recommend re-opening the standard for a major project, but if needed, set a narrow scope project for strictly necessary amendments. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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.

Feedback received identifies that the audit teams are having more robust discussions with management and those charged with governance regarding accounting estimates and the way they are determined and measured. Nevertheless, the level of tension during those meetings has increased because of the more detailed questions raised by auditors. Management and TCWG may continue to have the perception that auditors want to find errors, and this creates, in certain cases, frictions during such encounters. However, open discussions have been very welcomed, and help prepared the entities with better documentation and support from the involved parties for future audits.

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

Difficult to Determine

17. What specific suggestions do you have for how the IAASB can best address the issues or challenges you have identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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		

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.

Regarding the understanding requirements in ISA 315 revised, we consider that there is minor impact in practice because auditors will perform such understanding by obtaining whatever documentation has been prepared at the entity level. We recognize that SMPs may struggle a bit more but receiving little or no formal documentation will, nonetheless, contribute to completing the risk assessment process. For the retrospective review, it is hard to rate the "agreement" as it depends entirely on the specific circumstances of the audit, and the individual accounting estimate; feedback received reflects experiences based on the entity size, complexity of the estimate and type of industry.

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)?

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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

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

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
Responses to the Assessed Risks of Material Misstatement (a) Determining the most appropriate response(s) to the assessed risks of material misstatement at the assertion			X		
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.			X		
(c) Appropriately applying the testing approach of obtaining audit evidence about events occurring up to the date of the auditor’s report, either alone or with another testing approach(es).			X		
(d) Testing how management made the accounting estimate.		X			
(e) Developing an auditor’s point estimate or range.		X			
Overall Evaluation (f) Determining whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.			X		
(g) Evaluating identified misstatements related to accounting estimates, including when the audit evidence supports a point estimate that differs from management’s point estimate or a range that does not include management’s point estimate, or when the auditor’s range is wide (in some cases, multiples of materiality for the financial statements as a whole).		X			

22A. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the accounting estimates.*

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Testing management's selection of the method, significant assumptions, and data used, including whether management's judgments give rise to indicators of possible management bias.		X			
(b) Understanding management's application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used.		X			
(c) Whether management has taken appropriate steps to understand and address estimation uncertainty, including the selection of an appropriate point estimate and developing related disclosures about estimation uncertainty.		X			

22B. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Determining when it may be appropriate to develop an auditor's point estimate or range.			X		
(b) Determining that the auditor's range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.		X			
(c) Maintaining objectivity and independence, for example, when material adjustments are made to management's point estimate based on the auditor's point estimate developed using a model or assumptions that were different from management's models and assumptions.		X			

23. Briefly describe these or any other issues or challenges you observed related to responding to risks of material misstatement and whether such issues or challenges relate primarily to estimates that have a high degree of estimation uncertainty or complexity.

These comments relate to estimates with high degree of estimation uncertainty or complexity. Audit teams, including specialists and experts, spend more time understanding the methods, models and assumptions used by management when preparing the estimates. This includes having more detailed discussion and challenging the prepares to provide more tangible and detailed evidence of such topics. Accuracy and completeness of information extracted from information systems or used by auditors to develop a rage or point estimate may become a challenge as it may not have been requested in the past with the level of precision or data points needed. Methodologies applied by the auditor's specialists or experts could vary in extent and nature as the estimates are more subjective and are based on facts and circumstances that evolve over time.

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

Difficult to Determine

25. What specific suggestions do you have for how the IAASB can best address the issues or challenges you have

identified (e.g., standard-setting, non-authoritative guidance, or other actions)?

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.

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.

Involvement of more experienced team members, specialist or experts has been more prominent with the implementation of the ISA 540 revised; however, there may be cases where the firms do not have the necessary level of expertise or the estimate is derived from such complex method or assumptions that it has been necessary to bring an external auditor's expert to provide assistance to audit the estimate. Audit costs have increased and, in some cases, management has not been in agreement to repay such costs as they consider that the requirements form the standard, and therefore compliance, are on the auditor's side. The amount of documentation to achieve the level of sufficient appropriate audit evidence has also been a challenge as firms vary in the level of detail that is considered to be enough. Audit teams received feedback from quality reviewers in either agreeing or disagreeing with the levels of documentation. It is clear that more complex estimates may need a more detail level of evidence, but it has been hard for the practice to balance the requirements vs the tangible and detailed documentation included into the audit files.

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)?

We consider that additional non-authoritative materials, examples, FAQs could assist engagement teams to polish the application of requirements and interpretation of the application material. Also, we recognize that the use of the LCE standard also provides good materials and references for certain types of engagements which contributes to balance the audit work.