ISA 540 (Revised) Post-Implementation Survey

Response ID:349 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) : Instituto Nacional de Contadores Públicos de Colombia - INCP
Name(s) of contact(s) for this submission : Clenia Causil
Job title or role : Technical Lead
E-mail address(es) of contact(s) : Clenia.causil@incp.org.co

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:

South America

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. : Technical Committee comprising experts from audit firms and academic
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : 10 technical and academic professionals

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).

ISA 540 (Revised) has not yet been adopted in Colombia. However, some large audit firms have already begun applying the standard. The responses provided reflect the perspectives of leaders from firms that are implementing ISA 540 (Revised), who are members of INCP and represent a significant share of the Colombian audit market.

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.

Yes, particularly for professionals working in audit firms that maintain stronger controls over compliance with methodologies based on international standards. The requirements are significantly more robust and promote more rigorous documentation and professional skepticism, resulting in better audit documentation to support the reasonableness of accounting estimates.

It should be noted that ISA 540 (Revised) has not yet been formally adopted in Colombia and, therefore, has not been widely applied by all professionals. Multinational audit firms have adopted the standard early because they are required to comply with international methodologies and guidance

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?

4 – Strongly Agree
Comments: We recommend that these tools be promoted more broadly.

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?

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 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.

The application of professional judgment may vary across audit engagements, individual practitioners, and the complexity of the entity.

Lack of consistency in the audit procedures performed, whereby differences in the auditor's level of experience may result in either excessive or insufficient audit effort.

Audit effort that may be disproportionate to the size of the entity and the nature and complexity of the accounting estimate.

The need for specialized expertise when evaluating complex accounting estimates, requiring the involvement of experts who may not be available within all firms and whose involvement may be costly.

Challenges related to the availability and reliability of historical information in entities with large volumes of transactions. This may affect the quality of the information on which the accounting estimate is based.

SMP may lack the infrastructure required to implement ISA 540 (Revised), particularly with respect to documentation requirements and the involvement of experts in the evaluation of complex accounting estimates.

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?

No

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)?

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials.
Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

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.

Complexity in evaluating accounting estimates that involve significant management judgment and, therefore, a heightened risk of management bias, making the independent assessment of the estimate more challenging.
Complex models that require the involvement of specialists or experts.
Appropriately challenging management's judgments when unobservable inputs are used in the development of accounting estimates.
Lack of reliable documentation from management, which may limit the auditor's ability to obtain sufficient appropriate audit evidence.

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)?

Additional guidance tailored to specific sectors and industries, including examples of audit responses that may be commonly applicable to certain potential and pervasive risks, taking into account the jurisdiction and the nature of the accounting estimate.

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.

Materiality considerations and the auditor's exercise of professional judgment may affect risk identification, the nature and extent of audit evidence required, and the design and implementation of responses to assessed risks.

18B. Indicate the extent to which you agree with the following statements with respect to *reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation.*

	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) The retrospective review process is difficult due to changes in economic conditions or assumptions that make prior-period estimates less comparable.		X			
(b) The time and effort required to perform a retrospective review outweigh the perceived benefits for audit risk assessment.			X		

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

Entities frequently do not maintain traceable and documented evidence that would allow for a retrospective review, nor do they maintain complete documentation of changes in assumptions.

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

No

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

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials. Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

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.

Some disclosures in the financial statements are highly detailed and dense, which may hinder users' understanding of the financial information. While the reporting requirements are met, the content is not always effective in enabling users to clearly understand the information being disclosed.

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)?

Greater promotion and dissemination of existing non-authoritative guidance and implementation support materials. Development of additional implementation tools and guidance based on the feedback and observations received through this post-implementation review survey.

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.

With respect to documentation, one of the main challenges relates to the volume and level of detail required to adequately support professional judgments, risk assessments, audit procedures performed, and conclusions reached. This can create significant operational burdens, particularly for SMPs, as well as inconsistencies in the way similar procedures are documented across audit teams.

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)?

Certain areas, particularly those involving complex professional judgments, the use of experts, and the expected level of documentation, could benefit from more practical and detailed application material and implementation guidance.

The challenges observed appear to be more closely related to the inherent complexity of accounting estimates, differences in technical expertise across firms and jurisdictions, and the need to exercise professional judgment in a variety of circumstances. In particular, additional illustrative examples and implementation guidance could be developed to promote a more consistent and proportionate application of the standard.