ISA 540 (Revised) Post-Implementation Survey

Response ID:436 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) : Malaysian Institute of Accountants
Name(s) of contact(s) for this submission : Simon Tay Pit Eu; Lee Yee Fung
Job title or role : Executive Director; Manager, Professional Practices and Technical Division
E-mail address(es) of contact(s) : simontaypiteu@mia.org.my; leeyeefung@mia.org.my

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:

Asia Pacific

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. : The survey was circulated to the MIA's Auditing and Assurance Standards Board (AASB) for feedback, if any.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : 19 members of the AASB (comprising individuals representing their firms or organisations)

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.

We are of the view that ISA 540 (Revised) has generally met its objectives by enhancing audit quality in relation to accounting estimates and related disclosures. The revised standard provides a robust guidance and emphasizes the importance of professional skepticism, risk assessment, and the evaluation of audit evidence.

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 guidance, including illustrative examples, flowcharts, and presentations helps to clarify requirements, provides practical implementation guidance and facilitates a better understanding of the standard.

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:

Improved awareness among management about the importance of robust estimation processes, which has indirectly strengthened internal controls in some engagements.

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.

2 – Minor Issues or Challenges

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

While the standard is designed to be applied to audits of all sizes, the documentation and procedural requirements can feel burdensome for low-risk or smaller engagements. Although the standard does not explicitly mandate excessive documentation, firms often adopt

comprehensive templates to mitigate inspection risk. This results in:
• mechanical documentation of inherent risk factors
• formalised standback assessments
• detailed linkage of risk assessment to procedures, even where estimation uncertainty is low.

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)?

The IAASB can provide non-authoritative guidance or illustrative examples demonstrating how the requirements of ISA 540 (Revised) can be applied in a proportionate manner for low-risk or routine accounting 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.

One of the key challenges auditors face in auditing accounting estimates arises when management uses a management's expert in developing the estimate. While ISA 540 requires the auditor to evaluate whether information obtained from management or management's expert is relevant and reliable (ISA 540.22), the standard does not explicitly distinguish the expected nature and extent of audit procedures when assumptions and data are developed internally by management or its expert, as compared to situations where the expert independently sources observable market data. This can create practical difficulties in tailoring an appropriate audit response that is proportionate to the assessed risks of material misstatement (ISA 540.18).
Further challenges arise where management's valuation specialist determines significant assumptions primarily based on professional judgment or personal experience, rather than on observable inputs or clearly supportable data. Although ISA 540 requires auditors to evaluate the reasonableness of significant assumptions and whether they are consistent with the applicable financial reporting framework (ISA 540.24(a)), auditors may encounter difficulty in effectively challenging such assumptions when supporting rationale is insufficiently documented. This is particularly problematic for estimates involving high estimation uncertainty or subjectivity, where management bias risk is elevated (ISA 540.16, ISA 540.34).
In practice, auditors may also find it challenging to apply the requirements related to professional skepticism and management bias assessment (ISA 540.25, ISA 540.34) when the specialist's assumptions are justified primarily by experience, as opposed to verifiable evidence. The application material acknowledges that management's experts may use judgment in selecting

methods, assumptions, and data (ISA 540.A116–A118), but provides limited guidance on how auditors should robustly challenge those judgments when observable corroborative evidence is lacking. As noted in ISA 540.A123–A124, this can complicate the auditor's evaluation of whether the assumptions reflect reasonable alternatives and whether the estimate adequately captures estimation uncertainty. Auditors may also face challenges in determining what constitutes a risk-based and proportionate audit response when management's experts are used, particularly in sectors requiring specialised technical expertise (e.g., the oil and gas industry). In practice, the assessment of the nature and extent of audit procedures can be subjective at this stage and may lead to inconsistent application.

As a result, auditors may face increased difficulty in concluding whether sufficient appropriate audit evidence has been obtained (ISA 540.35) and in demonstrating a well supported challenge to the management's expert, particularly in inspections or regulatory reviews where judgments must be clearly evidentially grounded.

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?

Yes

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)?

The IAASB could address these challenges through targeted standard setting and implementation support. ISA 540 could be enhanced to more clearly distinguish expected audit procedures where assumptions and data are internally developed by management or management's expert versus sourced from observable external data, and to clarify expectations for challenging experience based assumptions. Expanded application material or non authoritative guidance could provide practical examples of robust auditor challenge, assessment of management bias, and documentation expectations in high judgment estimates, including clearer linkage with ISA 620. Additional outreach and implementation guidance would promote consistent application and improve audit defensibility, particularly in inspection contexts.

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.

The interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) presents practical challenges, as the boundary between the general risk assessment requirements of ISA 315 and the estimate focused requirements of ISA 540 is not always clearly articulated. This lack of clarity can result in uncertainty over the extent to which inherent risk factors should be evaluated, how internal controls should be incorporated into the audit of accounting estimates, and how the spectrum of inherent risk in ISA 540 should be consistently aligned with ISA 315's risk assessment framework.

As a result, in practice, auditors may experience overlap and duplication when performing and documenting risk assessment procedures for accounting estimates.

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.

Retrospective review of accounting estimates can be challenging due to changes in economic conditions and assumptions may limit comparability with actual outcomes. The process can also be time-consuming, especially for accounting estimates with high uncertainty and 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?

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)?

Providing non-authoritative guidance, such as practical examples and case studies, to illustrate the application of retrospective reviews, particularly in volatile economic environments. Additionally, guidance on how the risk assessment requirements of ISA 540 (Revised) build on ISA 315 (Revised 2019) could help reduce overlap and duplication in documentation and procedures.

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				

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.

Another challenge encountered relates to the insufficient clarity in the standard regarding how auditors should differentiate the

nature, timing, and extent of audit procedures for significant accounting estimates, compared with non significant estimates or non significant elements of estimates. While ISA 540 introduces the concept of a significant accounting estimate (ISA 540.17) and requires heightened auditor attention based on the assessment of inherent risk (ISA 540.16), the standard provides limited explicit guidance on how inherent risk assessments should be translated into clearly differentiated and scalable audit responses.
In practice, auditors often encounter difficulty in assessing inherent risk across the spectrum of accounting estimates, particularly in determining how inherent risk factors such as estimation uncertainty, subjectivity, complexity, and judgment (ISA 540.16) should influence the classification of an estimate as significant or non significant. This judgment becomes more complex where estimates involve a mix of lower risk and higher risk elements, or where judgment is present but not to a degree that clearly elevates the estimate to "significant" status. As a result, auditors may struggle to articulate a clear linkage between inherent risk assessment and the resulting audit strategy.
Although ISA 540 requires further audit procedures to be responsive to the assessed risks of material misstatement (ISA 540.23), practical challenges arise in determining the minimum or expected work effort for non significant estimates. This is particularly the case where such estimates still involve meaningful judgment, subjectivity, or data complexity, but do not meet the threshold for a significant accounting estimate. The standard places clear emphasis on enhanced procedures for significant estimates—such as obtaining a detailed understanding of management's process (ISA 540.20), evaluating assumptions, methods, and data in depth (ISA 540.24), and performing a robust assessment of management bias (ISA 540.25, ISA 540.34) yet provides limited guidance on how these procedures should be modified, reduced, or simplified for non significant estimates.
Further complexity arises where an estimate as a whole is not deemed significant, but individual elements of the estimate (for example, specific assumptions or data sources) involve elevated judgment or uncertainty. While the application material recognises that inherent risk factors may vary at the assertion or component level (ISA 540.A12–A13), the standard does not offer sufficient operational guidance on how such risk assessments should drive differentiated procedures at the element level, or how auditors should document the rationale for applying less extensive procedures to non significant components.
As a result, auditors may face uncertainty in determining whether the audit evidence obtained for non significant estimates or elements is sufficient and appropriate (ISA 540.35), particularly in inspection or regulatory review contexts. The absence of clearer guidance linking inherent risk assessment to commensurate audit procedures can lead to inconsistent application in practice and challenges in demonstrating that audit responses are both risk responsive and proportionate. Greater clarity within ISA 540 on how auditors should operationalise inherent risk assessments—from classification of significance through to determination of audit procedures—would support consistent judgment, enhance audit quality, and improve documentation defensibility.

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)?

The IAASB could address these challenges through targeted practical guidance for ISA 540, clarifying how inherent risk assessments should be operationalised from the identification of significant versus non significant estimates through to the determination of appropriate, proportionate audit procedures. Additional application material or non-authoritative guidance could provide practical examples illustrating how audit effort may be scaled based on varying levels of estimation uncertainty, subjectivity, and judgment, including at the element or assumption level.

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.

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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 Response

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)?

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