Response ID:406 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) : Malta Institute of Accountants
Name(s) of contact(s) for this submission : Neil Sammut
Job title or role : Technical Officer
E-mail address(es) of contact(s) : technical@miamalta.org

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:

Europe

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. : MIA Audit and Assurance Group members
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : The survey was circulated to a targeted group of members drawn from small, medium and large firms, which collectively represent the vast majority of our overall membership base, and responses are therefore considered broadly representative of the membership base.

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).

N/A

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.

ISA 540 (Revised) has largely achieved its intended purpose, particularly for more complex accounting estimates, by sharpening the auditor's focus on methods/models, assumptions and data, and by driving a more disciplined, risk-based approach, enhanced professional scepticism, and stronger attention to disclosures in areas of significant judgment and estimation uncertainty. Overall, the standard is directionally successful and has contributed to improved audit quality and a more structured audit approach. However, practical implementation experience indicates ongoing challenges, most notably in achieving appropriate scalability and proportionality for simpler, low-risk estimates, where the effort required may appear misaligned with the underlying risk. Additional complexities arise in the interaction with ISA 315 and ISA 330, the balance between controls and substantive procedures, the involvement of specialists, considerations of management bias, and the operationalisation of documentation and evaluation requirements.
In addition, it is increasingly important to consider the impact of emerging technologies, including AI, both in how entities develop accounting estimates and how auditors design and perform audit procedures over such estimates. As these technologies evolve, they may further influence the nature of risk and the auditor's response, and therefore ongoing monitoring is necessary to ensure the standard remains fit for purpose.
These issues are best addressed through targeted implementation support, clearer guidance, and practical examples,

particularly on scalability, rather than through significant redrafting of the standard. Consideration could also be given to formally recognising ISA 540 (Revised) within the IAASB's Technology Catalogue as part of broader efforts to assess the impact of technological developments on auditing standards.

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 IAASB's non-authoritative support tools have been valuable in promoting awareness and supporting more consistent implementation of ISA 540 (Revised), particularly through presentations, flowcharts, and other practical materials. These resources are especially helpful for more complex estimates; however, further enhancement is needed in the form of additional worked examples and more targeted, practical guidance. In particular, users would benefit from clearer direction on how to scale the standard for simple, low-risk estimates and routine accruals, how to align the level of effort more explicitly with the underlying risk, and how to address key judgment areas such as the interaction with ISA 315 and ISA 330, evaluation of point estimates and ranges, and considerations of management bias. Strengthening guidance in these areas would further support consistent, proportionate, and effective application 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:

Additional benefits include a clearer linkage between risk assessment and the design of audit responses; stronger discipline around evaluating estimates through the lenses of methods, assumptions and data; greater focus on the need for appropriate expertise; and stronger governance dialogue around estimation uncertainty and related disclosures.

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 most significant challenge in practice relates to achieving appropriate scalability and proportionality when applying ISA 540 (Revised) to simple or low-risk estimates. While the standard operates effectively for complex estimates with high estimation uncertainty, audit teams often struggle to scale the requirements down for routine accruals and straightforward estimates. In such cases, the application can become overly documentation-heavy, mechanistic, and difficult to operationalise, with certain aspects perceived as overly complex or lacking clarity. This can lead to a mismatch between the effort performed and the underlying risk, and may encourage a checklist-driven approach rather than a genuinely risk-based one. There is also a need for clearer articulation of expectations at the lower end of the estimation spectrum, including stronger linkage to core risk-based audit principles. For these simpler estimates, additional guidance would be beneficial to support a more proportionate approach, potentially allowing auditors, based on professional judgment and risk, to apply procedures more akin to those used for other non-estimate balances where appropriate.

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)?

We do not see an immediate need to revise ISA 540 (Revised),and instead recommend that the IAASB prioritise the development of non-authoritative guidance and implementation support. In particular, additional worked examples would be valuable in illustrating the application of the standard across a spectrum of estimates, from simple, low-risk accruals to more complex areas, while demonstrating how a proportionate, risk-based approach operates in practice. This should include clearer guidance on how auditors can scale procedures and documentation to the assessed risk of material misstatement, including when it is appropriate to leverage other audit work rather than apply every aspect of the framework in full. Further clarification on documenting proportionate approaches in low-risk scenarios, as well as enhanced guidance on the interaction with ISA 315 and ISA 330, would also be helpful.

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.

ISA 540 (Revised) appropriately emphasises professional scepticism; however, in practice, the key challenge lies not in the concept itself but in its consistent execution and documentation. This is particularly evident in areas involving complex models, subjective assumptions, external pricing or market data, and potential indicators of management bias. Auditors often face difficulties when dealing with wide ranges of reasonable outcomes, such as in impairment assessments, where small changes in assumptions can lead to significant variations in estimates. In such cases, it can be challenging to determine and robustly document an "appropriate" range and to clearly articulate the nature and extent of challenge applied to management's judgments in a manner that withstands retrospective inspection. There is also variability in how contradictory evidence and the "stand back" evaluation are documented. These challenges primarily relate to the practical execution and articulation of sceptical judgment rather than deficiencies in the standard itself, and would benefit from more targeted, practical guidance on how to document such judgments concisely yet persuasively.

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)?

Additional non-authoritative guidance would be beneficial in the form of practical examples that illustrate key aspects of applying professional scepticism under ISA 540 (Revised). In particular, examples could demonstrate potential indicators of management bias, how auditors can constructively challenge management's judgements, and how to identify and document contradictory evidence and perform the "stand back" evaluation. Further targeted guidance would also be valuable on how auditors can develop, evaluate, and document ranges of reasonable outcomes for complex estimates in a manner that is both practical and robust, including setting appropriate parameters and considering sensitivity to key assumptions. Illustrative scenarios showing how auditors exercise and document professional scepticism, especially where ranges are wide or where the auditor's view differs from management's point estimate, would support more consistent, defensible application in practice. These enhancements would address execution challenges without necessitating changes to the standard itself.

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		

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.

The main practical challenges relate to translating the revised concepts of ISA 540 (Revised) into a clear, operational, and scalable methodology. In practice, audit teams often face difficulty in determining the appropriate depth of understanding required, how ISA 540-specific procedures build on the broader understanding obtained under ISA 315, and how to effectively operationalise separate inherent and control risk assessments. Additional complexity arises in evaluating the interrelationship between complexity, subjectivity, and estimation uncertainty, particularly for estimates involving significant judgment, complex models, or system-generated data. Specific challenges include uncertainty around the appropriate scope and value of retrospective reviews, where clearer guidance on how these should be scaled based on risk would be beneficial. Furthermore, for complex estimates with high estimation uncertainty, it can be difficult to translate understanding of management's process and inherent risk factors into a clear, supportable assessment of inherent and control risk, including the identification of significant risks. These challenges are most pronounced for high-risk or highly complex estimates and primarily relate to practical application rather than deficiencies in the standard itself.

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)?

Additional non-authoritative guidance would be beneficial to clarify the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019) and ISA 330, supported by more decision-useful application material. In particular, clearer direction is needed on the extent of understanding required, the assessment of inherent risk factors, the distinction and separate assessment of inherent and control risks, and the circumstances in which risks relating to estimates should be classified as significant. Practical examples would also be valuable in illustrating how retrospective reviews can be applied across different types of estimates, including when they are most informative and how their scope can be scaled for lower-risk scenarios. Further guidance demonstrating how inherent risk factors for estimates feed into the overall risk assessment, as well as how auditors can document their reasoning when determining whether a risk is significant, would support more consistent and robust application in practice without requiring changes to the standard itself.

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.

The main practical challenges in responding to assessed risks and forming overall conclusions under ISA 540 (Revised) arise in determining the most appropriate audit approach and evaluating outcomes, particularly for complex, forward-looking, or model-driven estimates. In practice, auditors often face difficulty deciding when a controls-based approach is appropriate or efficient, when it is preferable to develop an independent point estimate or range rather than test management's process, and how to evaluate results where ranges of reasonable outcomes are wide or where individual differences are small but cumulatively informative. These challenges are further intensified by emerging use of AI-driven or "black box" models, where limited transparency over underlying logic makes it difficult to obtain sufficient understanding and audit evidence, thereby increasing reliance on independent auditor-developed estimates.

In addition, evaluating and documenting wide ranges, such as in impairment assessments remains complex, as small changes in assumptions can produce significant variations, making it difficult to robustly support judgments about the acceptable range and increasing vulnerability to inspection challenge. These issues are most pronounced in high-uncertainty and highly complex estimates and reflect practical application challenges rather than deficiencies in the standard itself.

Also, there is often difficulty in identifying and focusing on the assumptions that truly drive the estimate, with some engagement teams tending to classify too many assumptions as significant. This can dilute audit focus and lead to unnecessary work effort, particularly in complex estimates where inputs are less observable, assumptions are interdependent, or models are more sophisticated.

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)?

Additional non-authoritative guidance would be beneficial through practical worked examples that address key aspects of responding to assessed risks under ISA 540 (Revised). In particular, examples could illustrate how auditors select between different testing approaches, determine when a controls-based approach is appropriate, develop and evaluate auditor-derived point estimates or ranges, and assess misstatements where ranges are wide or where management's estimate lies at the edge of a reasonable range. Further guidance would also be valuable in addressing emerging challenges associated with AI and "black box" models, including how auditors can respond when management uses opaque models, such as when it may be necessary to develop independent estimates, or how to evaluate controls and underlying data where model logic is not fully transparent. Illustrative scenarios focused on complex estimates would support auditors in understanding how to practically develop independent ranges, document key judgements in situations involving wide ranges, and link these assessments to conclusions on misstatement. Such guidance would enhance consistency and robustness in application without requiring amendments to the standard itself.

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.

The main challenges observed relate less to whether requirements exist and more to how they are applied in practice in a focused, consistent, and efficient manner. From a communication perspective, the difficulty lies in presenting matters in a clear, decision-useful way. In relation to specialised skills and experts, there is some uncertainty around when to involve auditors' or management's experts and how their work should be integrated with the auditor's understanding of management's processes, methods, assumptions and data under ISA 540 (Revised); clearer guidance in this area would be beneficial. Teams would also benefit from more practical examples illustrating different approaches to auditing complex estimates such as testing management's process, developing an independent estimate, or using subsequent events and how to bring together the resulting evidence coherently. Finally, documentation remains a key challenge, with a need to strike an appropriate balance between inspection-ready rigour and proportionate, readable documentation, as well as to reduce variability in what is considered sufficient in practice, particularly for both complex and less complex estimates.

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)?

Additional non-authoritative guidance would be beneficial in providing practical support across several key areas of application under ISA 540 (Revised). In particular, guidance could include indicators or triggers for when specialist involvement is appropriate, alongside clarification of how the standard interacts with requirements on using the work of management's and auditor's experts. Further illustrative examples would also support more consistent practice, including concise yet robust documentation, effective communication with those charged with governance on significant estimates, and the treatment of external information sources, pricing data, and system-generated outputs. In addition, practical scenarios demonstrating different approaches to auditing complex estimates, such as testing management's process, developing independent estimates, or using subsequent events, would be valuable, particularly where they show how to select an appropriate response and integrate and document the various considerations and evidence in a coherent manner. Such enhancements would strengthen practical implementation and consistency without requiring changes to the standard itself.