Committee of
European
Auditing
Oversight
Bodies

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, 10017
USA

02 September 2026

Re: Comment letter relating to the IAASB's Post Implementation Review of International Standard on Auditing 540 (Revised) Auditing Accounting Estimates and Related Disclosures

Dear Mr. Seidenstein,

1. The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on the International Auditing and Accounting Standards Board's (IAASB's) survey as part of its Post Implementation Review of International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures.

2. As the organization representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.

3. The content of this letter has been prepared by the CEAOB International Auditing Standards Sub-group and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all the comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.

4. This contribution includes deficiencies identified during inspections by some CEAOB members related to auditing accounting estimates and related disclosures.

5. The CEAOB provides input in this letter rather than responding to the online public consultation survey provided on the IAASB website, noting however that a number of points raised in this letter address questions of that survey.

General comments

6. The CEAOB supports the IAASB's initiative and efforts to:

   - Determine whether ISA 540 (Revised) has achieved its intended purpose by identifying improvements or benefits from applying the revised standard and practical challenges or questions regarding its application, including whether it is being consistently understood and implemented; and

   - Determine what actions, if any, are needed by the IAASB to address identified matters.

7. Overall, the CEAOB is of the view that the revised standard ISA 540 is an improvement, with more explicit requirements compared to the previous standard and that the improvements made by the revision of the standard are a step in the right direction that is important to preserve.
8. The CEAOB however identifies several areas of difficulties (of interpretation, understanding, or application) where provisions of the revised standard would benefit from further improvement or guidance.

9. The CEAOB takes the opportunity of the Post Implementation Review of ISA 540 (Revised) to share its views on improvements that should be considered by the IAASB.

Developing an Auditor’s Point Estimate or Range

10. Where the auditor develops a point estimate or range (i.e., approach (c) in ISA 540 (Revised) paragraph 18), ISA 540 (Revised) paragraph 28 requires the auditor to perform further audit procedures to evaluate whether the methods, assumptions, and data used are appropriate in the context of the applicable financial reporting framework. It further specifies that these procedures, regardless of whether the auditor uses management’s or the auditor’s own methods, assumptions, or data, shall be designed and performed to address the matters set out in ISA 540 (Revised) paragraphs 23–25.

11. However, ISA 540 (Revised) paragraphs 23–25 (dealing with methods, significant assumptions, and data) are conceptually derived from, and explicitly linked to, ISA 540 (Revised) paragraph 22, which addresses the testing of how management made the accounting estimate (i.e., approach (b) in ISA 540 (Revised) paragraph 18).

12. Therefore, the CEAOB recommends that the IAASB clarifies how these requirements should be operationalized under the two distinct approaches (b) and (c) set out in ISA 540 (Revised) paragraph 18 i.e. for management’s estimate and for the auditor’s estimate.

Auditor’s range

Size of the range

13. Paragraph A125 of ISA 540 (Revised) states that the auditor's range may be multiples of materiality for the financial statements as a whole. Some CEAOB members have noted that the implementation of this provision has become increasingly common since the revision of the standard.

14. However, in certain engagement files, those members find it difficult to understand why such an important range being multiples of materiality for the financial statements as a whole is appropriate in the circumstances of the engagement.

15. Furthermore, the standard does not prescribe any limit for the range, and some CEAOB members have found situations where the auditor’s range was more than 50 times the materiality for the financial statements as a whole in some instances.

16. The CEAOB is of the view that additional clarifications should be integrated within the standard to ensure the auditor is able to justify and document the appropriateness of the size of the range.

17. Furthermore, additional guidance and examples should be provided to better explain when it is relevant vs when it is not relevant to use a range that is multiples of materiality for the financial statements as a whole.

Inconsistency between the auditor's range and the management's range

18. When the auditor decides to develop its own range per ISA 540 (Revised) paragraph 18(c), and the management also determines a range (on its own or through a management's expert), there is no explicit requirement for the auditor to compare the size of the management's range with the auditor's range.

19. In some engagement files, it appeared that the auditor's range was significantly wider than the one determined by the management or management's expert and largely included the latter.

20. In that case, the uncertainty determined by the auditor is significantly higher than the one determined by the management. This calls into question the appropriateness either of the width of the auditor's range or of the steps taken by management to understand the uncertainty and address it by developing appropriate disclosures in the financial statements.

21. The standard should clarify that, when the auditor's range includes the management's one but is far wider than the latter, the auditor shall be able to justify and document the rationale behind its wider range in the circumstance of the engagement.

22. Furthermore, the auditor should consider the implications for the disclosures in the financial statements. Indeed, management will disclose the uncertainty based on its own range, and readers of the financial statements will not be aware of the wider uncertainty determined by the auditors. In this regard, the IAASB could further explore solutions around information to include in the audit report, targeting relevant information for the readers of the financial statements.

Range for only part of the accounting estimate

23. Paragraph A122 of ISA 540 (Revised) states that the auditor may develop a range for only part of the accounting estimate (for example, for a particular assumption, or when only a certain part of the accounting estimate is giving rise to the risk of material misstatement).

24. The CEAOB acknowledges this is consistent with the inclusion of an enhanced risk assessment specifically tailored to accounting estimates that builds on the risk assessment required by ISA 315 (Revised 2019) and recognizes this is beneficial for the auditor to better understand where the risk of material misstatements stands.

25. However, the CEAOB finds it important to bring to the IAASB's attention the potential adverse consequences of this disaggregation. In certain engagements, risk of material misstatement is assessed on several different significant assumptions related to a single estimate. To respond to these risks, the auditor develops its own range on these several different assumptions and concludes individually on each of them.

26. However, there is no requirement to conclude on the estimate on an aggregated basis, requiring to take into consideration all the reasonably possible outcomes of the significant assumptions in combination. Such an analysis carried out in combination often results in a range of possible outcomes for the estimate as a whole whose width is likely to merit further consideration by the auditor.

27. Based on the above, the IAASB should consider clarifying the aggregation risk implied while determining several ranges for different assumption relating to the same accounting estimate.

Identifying and assessing the significant assumptions

28. ISA 540 (Revised) requires the auditor to:
    - Obtain an understanding of how management identifies significant assumption while identifying and assessing the risk of material misstatement (ISA 540 (Revised) paragraph 13 (h) (ii) a. ii.) and;
    - Perform further audit procedures to obtain sufficient appropriate audit evidence regarding the risk of material misstatement relating to the significant assumptions while responding to the assessed risk of material misstatement (ISA 540 (Revised) paragraph 22 (a) and 24).

29. Determining whether an assumption is significant or not is therefore very important, considering that the level of audit procedures required depends on this assessment.

30. However, the standard does not set out any specific requirements on how to determine whether an assumption is significant or not. The standard only states in its application material paragraph A42 that *"Assumptions used in making an accounting estimate are referred to as significant assumptions in this ISA if a reasonable variation in the assumption would materially affect the measurement of the accounting estimate. A sensitivity analysis may be useful in demonstrating the degree to which the measurement varies based on one or more assumptions used in making the accounting estimate."*

31. In practice, this determination based on professional judgement appears in some instances not to be supported by sufficient qualitative and quantitative evidence, and sensitivity analysis or other procedures to assess the impact of the assumptions on the estimate are often lacking in such cases.

32. The CEAOB thus recommends to further define within the standard when an assumption is significant.

Disclosures

33. ISA 540 (Revised) paragraph 36 states that in relation to accounting estimates, the auditor shall evaluate, in the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole.

34. The CEAOB welcomes this clarification in ISA 540 (Revised).

35. However, the CEAOB is of the view that other materials could be developed by the IAASB such as a staff alert or additional specific publication dealing with these complex situations and highlighting the importance of audit procedures ensuring those disclosures are reasonable and contribute to users' understanding.

36. Finally, more guidance and examples within the standard on how to determine when a disclosure is qualitatively material would be appreciated in the context of estimation uncertainty.

Retrospective review

Retrospective review used as substantive audit procedure

37. ISA 540 (Revised) paragraph 14 requires the auditor to review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. As such, per the standard, the retrospective review is only required to help the auditor in identifying and assessing the risks of material misstatement.

38. However, for certain entities such as fund of funds whose inputs qualifies neither as Level 1 nor Level 2[1], the retrospective review is one of the main and most important substantive audit procedures performed by the auditor to validate the estimated value of the investments at year end. Indeed, when the audited financial statements of the entities in which the audited fund has invested (hereafter "underlying investments") are not available at the time of the audit, the auditor often compares the previous year-end value of the underlying investments determined by management of the audited fund with the previous year-end audited financial statements of those underlying investments and relies on these comparison to obtain sufficient and appropriate audit evidence on the value determined at current year end.

39. Consequently, the standard could also recognize the retrospective review as a substantive audit procedure, by clearly defining when and how it is relevant to do so.

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[1] *Under IFRS 13 "Fair Value Measurement", Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date and Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.*

40. If the IAASB decides to proceed in that direction, it would be important to clarify the maximum acceptable period between the data used and the year-end estimates, with a period of up to 12 months considered appropriate.

Acceptable level of difference

41. While performing a retrospective review in accordance with paragraph 14 of ISA 540 (Revised), there is no guidance on the level of differences between the estimated amounts and realized amounts that would be considered acceptable.

42. While the standard is intended to remain principle-based and cannot prescribe a specific threshold for all situations, illustrative examples or additional guidance could provide auditors with a more robust framework on this matter.

Please feel free to contact me, should you need any further information about the content of this response.

Yours sincerely,

Panos Prodromides
Chairman