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**INDEPENDENT REGULATORY BOARD FOR AUDITORS**  
**COMMITTEE FOR AUDITING STANDARDS**

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**IAASB Issues ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures***

Johannesburg / 8 November 2018

The International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, on 3 October 2018.

The IRBA Board has approved ISA 540 (Revised) for adoption, issue and prescription for use by registered auditors in South Africa at its meeting on 6 November 2018. The revisions to ISA 540 (Revised) include those that are responsive to the significant local and international inspection findings on the audit of accounting estimates.

Banks, insurers and other financial service providers have seen revolutionary changes in their accounting practices as they have moved to new accounting standards that transformed the way they deal with loan provisions (International Financial Reporting Standard (IFRS) 9, *Financial Instruments*) and insurance contracts (IFRS 17, *Insurance Contracts*). ISA 540 (Revised) reflects this rapidly evolving business environment and ensures that the standard continues to keep pace with the changing market.

Some of the significant revisions include:

- An enhanced risk assessment that requires auditors to consider complexity, subjectivity and other inherent risk factors in addition to estimation uncertainty. This will drive auditors to think more deeply about the risks inherent to accounting estimates.
- A closer link between the enhanced risk assessment and the methods, data and assumptions used in making accounting estimates, including the use of complex models.
- A requirement for a separate assessment of inherent risk and control risk.
- Specific material to show how the standard is scalable to all types of accounting estimates.
- Emphasis on the importance of applying appropriate professional scepticism when auditing accounting estimates to foster a more independent and challenging sceptical mind-set in auditors. An example is the introduction of a 'stand-back' requirement or 'overall evaluation based on audit evidence obtained' that requires auditors to take into account all relevant audit evidence obtained, whether corroborative or contradictory.

ISA 540 (Revised) becomes effective for financial statement audits for periods beginning on or after 15 December 2019. Early adoption of ISA 540 (Revised) is permissible and is encouraged by the IRBA.

It is critical that all parties in the financial reporting supply chain collaborate in the implementation of a standard that has such far-reaching effects on the audit of financial statements. The IAASB will provide implementation support to help auditors navigate and apply the revised standard. Please visit the IAASB website for more information.

ISA 540 (Revised) may be downloaded from the [IRBA website](#).

Should you have any further queries, please contact the Standards Department by email at [standards@irba.co.za](mailto:standards@irba.co.za).

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***About the IRBA***

*The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.*

*The statutory responsibilities of the CFAS are to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements; to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and to promote and ensure the relevance of auditing pronouncements.*