Response ID:408 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) : European Federation of Accountants and Auditors for SMEs AISBL
Name(s) of contact(s) for this submission : Salvador Marin
Job title or role : EFAA President
E-mail address(es) of contact(s) : secretariat@efaa.com

2. Please select from the following options the stakeholder group to which you or your organization belongs:

Other

Please specify:

European umbrella organisation representing 15 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. : EFAA consulted its member bodies through targeted email communications and discussions within relevant EFAA committees and working groups. Feedback was collected and consolidated to inform the responses to the survey.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : EFAA for SMEs has 15 members throughout Europe representing over 400,000 accountants, auditors and tax advisors. Outreach was undertaken with representatives of EFAA member bodies, including professional accountancy organizations representing SMPs and auditors across Europe.

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.

EFAA believes that ISA 540 (Revised) has broadly achieved its intended purpose and the IAASB's objectives in developing the revised standard. In particular, the standard has strengthened the audit of accounting estimates and related disclosures by providing a more robust risk-based framework, enhancing the focus on professional skepticism, and promoting a more structured approach to identifying and responding to estimation uncertainty. These improvements have contributed to audit quality and greater consistency in the auditing of accounting estimates across jurisdictions.

From the perspective of small and medium-sized practices (SMPs), the revised standard has generally been successful in clarifying auditors' responsibilities and encouraging more rigorous consideration of the inherent risk factors associated with accounting estimates. The emphasis on scalability has also enabled the standard to be applied to a broad range of entities and engagements, including less complex entities.

However, EFAA notes that implementation has required a significant investment in training, methodology updates, and documentation processes, particularly for SMPs. In some cases, the standard may be perceived as complex and documentation-intensive relative to the nature and size of the engagement, especially where accounting estimates are straightforward and involve limited estimation uncertainty. As a result, practitioners have occasionally experienced challenges in applying the requirements in a proportionate manner.

Overall, EFAA considers ISA 540 (Revised) to be functioning as intended and to have delivered meaningful benefits in terms of audit quality, risk assessment, and auditor skepticism. Nevertheless, further implementation support, practical guidance, illustrative examples, and additional clarification regarding the scalable application of certain requirements would assist SMPs in achieving consistent and efficient implementation. EFAA therefore believes that any future actions by the IAASB should focus primarily on non-authoritative guidance and implementation support rather than fundamental revisions to the standard itself.

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: EFAA agrees that the non-authoritative guidance and support tools developed by the IAASB have been useful in supporting the implementation of ISA 540 (Revised), particularly by helping practitioners understand and apply the revised requirements. The materials have been especially valuable for SMPs during the transition to the new standard. However, additional practical examples and guidance on the scalable application of the standard for less complex entities would further support consistent and proportionate implementation. EFAA is also uncertain whether all auditors and audit firms are sufficiently aware of the available guidance and support materials.

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.

2 – Minor Issues or Challenges

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

EFAA is aware of minor issues related to scalability and proportionality, particularly for SMPs auditing less complex entities. While ISA 540 (Revised) is intended to be scalable, some practitioners perceive the requirements and related documentation expectations as burdensome when auditing simple accounting estimates with low estimation uncertainty. In particular, the risk assessment requirements require auditors to perform and document a number of detailed procedures before concluding that a "simple" estimate warrants only limited further audit work. Additional practical guidance and examples demonstrating the proportionate application of the standard in such circumstances would be beneficial.

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?

Yes

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)?

See comments

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.

No comments

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)?

None

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.					

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.

N/A

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 Response

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)?

N/A

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.

N/A

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 Response

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)?

N/A

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.

N/A

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)?

None