Response ID:404 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) : Nordic Federation of Public Accountants (NRF))
Name(s) of contact(s) for this submission : Helene Agélii
Job title or role : Secretary General/CEO
E-mail address(es) of contact(s) : helene.agelii@nrfaccount.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. : Input was obtained through targeted outreach among NRF's member bodies, primarily involving the technical departments of the PAOs. Engagement took place through joint discussions followed by written comments.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : See above.

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).

The Nordic Federation of Public Accountants (NRF) is an independent legal entity, representing the collective voice of the Nordic audit and accounting profession. NRF operates on behalf of—and under the direction of—the five recognised professional institutes in the Nordic region: DnR (Norway), FAR (Sweden), FLE (Iceland), FSR – danske revisorer (Denmark), and Suomen Tilintarkastajat ry (Finland).

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.

Overall, NRF considers that ISA 540 (Revised) has contributed to a more structured approach to auditing accounting estimates. In NRF's view, the revised standard has increased focus on risk assessment, management's assumptions and data, estimation uncertainty, and audit documentation.

However, practical challenges have been identified in the application of the standard.

Some requirements are perceived as overly prescriptive and insufficiently scalable, particularly in the context of SMPs and SME audits, where accounting estimates are often relatively simple and subject to low estimation uncertainty. In such circumstances, the extent of audit procedures and documentation frequently exceeds what would be proportionate to the nature and complexity of the estimate.

Certain aspects of the standard continue to present implementation challenges, particularly in relation to complex models and data, and the development of an auditor's point estimates or ranges. Feedback also suggests that the standard can result in the involvement of specialists in situations where this may not be necessary.

Overall, feedback suggests that further consideration could be given to scalability, proportionality, the practical implementation of certain requirements as well as opportunities to reduce duplication between ISA 315 (Revised 2019) and ISA 540 (Revised), especially regarding risk assessment and documentation.
NRF notes that interaction and duplication issues observed between ISA 540 (Revised) and ISA 315 (Revised 2019) are likely linked to the sequencing of the revisions, with ISA 540 having been revised prior to ISA 315. To avoid similar challenges arising again and noting that ISA 315 (Revised 2019) will shortly be subject to a post-implementation review, NRF recommends that any further work on ISA 540 be considered in parallel with, and informed by, the feedback from the ISA 315 PIR.

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: NRF agrees that the non-authoritative guidance and support tools are useful and have supported implementation of ISA 540 (Revised). At the same time, feedback indicates that the materials do not fully address several practical challenges encountered in applying the standard. These include issues of scalability and proportionality, duplication in work effort and documentation arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019), and practical challenges relating to the development of an auditor's point estimate or range and to complex models and data.

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.

4 – Significant Issues or Challenges

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

We observe a number of challenges related to scalability and proportionality in the application of ISA 540 (Revised).

The standard appears better suited to complex accounting estimates, including those involving significant estimation uncertainty or sophisticated valuation techniques. The main challenges arise when applying the standard proportionately to simpler or lower-risk estimates. This can result in audit procedures and documentation that provide limited additional audit value relative to the risks involved. In some cases, particularly for simpler estimates with low estimation uncertainty, auditors may perform procedures and documentation that appear more extensive than the work performed by management itself, reflecting challenges in applying the standard in a proportionate manner.

The extent of these challenges also differs depending on the applicable financial reporting framework. Entities applying IFRS may face more complex estimation requirements, whereas entities applying local GAAP frameworks often encounter less complex estimates, reflecting a greater reliance on historical cost accounting. As a result, certain requirements in ISA 540 (Revised), which appear largely designed with IFRS-based reporting in mind, may be difficult to apply proportionately in other reporting environments.

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)?

As noted above, NRF has identified two main practical challenges: the application of the standard to simpler accounting estimates, and the related documentation burden.

To address the first of these, the IAASB could consider a narrow-scope amendment to clarify the intended scope of application of the standard. One possible approach would be to limit full application to estimates with significant estimation uncertainty, that is, estimates where the risk of material misstatement is not at an acceptably low level or at the lower end of the spectrum of inherent risk.

Such a narrowing of scope could also help alleviate documentation challenges, as simpler estimates would no longer give rise to the same level of potentially redundant work effort under the standard.

NRF also notes issues of duplication arising from the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019). The separation of risk assessment requirements under the two standards can create duplication, increased documentation burden and operational inefficiencies. Feedback also indicates that audit methodologies and software often separate the documentation processes under ISA 315 and ISA 540, resulting in parallel, and in some cases differing, assessments of inherent risk and additional work effort. In NRF's view, these issues reflect overlap in the design and structure of the requirements, particularly in relation to risk assessment concepts and related documentation requirements and may therefore not be capable of being fully addressed through non-authoritative guidance alone.

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.

While some challenges may arise in appropriately challenging management's judgments, the exercise of professional scepticism depends on factors beyond the wording of the standard. The standard therefore appears appropriate, and inspection findings in this area are more likely to reflect issues in application rather than deficiencies in the standard.

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)?

The application of professional scepticism is inherently influenced by factors beyond the wording of the standard and is not well suited to being addressed through additional requirements. This is therefore an area where non-authoritative guidance is likely to be more effective.

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.

We refer to our responses to Q 6 and 11.

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.* 1 – Strongly Agree

	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.

We refer to our responses to Q 6 and 11.

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?

Yes

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)?

We refer to our response to Q 13.

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			

22B. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *developing a point estimate or range*.

	4 – Significant Issues or Challenges	3 – Moderate Issues or Challenges	2 – Minor Issues or Challenges	1 – No Issues or Challenges	0 – No Response
(a) Determining when it may be appropriate to develop an auditor's point estimate or range.		X			
(b) Determining that the auditor's range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework.		X			
(c) Maintaining objectivity and independence, for example, when material adjustments are made to management's point estimate based on the auditor's point estimate developed using a model or assumptions that were different from management's models and assumptions.					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 challenges are often more pronounced in SME and less complex audits, where management's process for developing an accounting estimate may be informal and not extensively documented. In these circumstances, it can be difficult for auditors to determine whether testing management's process or developing an independent estimate or range would be the more appropriate audit response.

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)?

We refer to our response to Q 13.

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.

Documentation requirements continue to present practical challenges, especially when documenting risk assessments, and considerations related to the interaction between ISA 540 (Revised) and ISA 315 (Revised 2019).

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?

Yes

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)?

We refer to our response to Q 13.