

ISA 540 (Revised) Post-Implementation Survey

Response ID:238 Data

3. Section II: About the Respondent

1. Please provide the following information about your organization (if applicable) and other contact information:

Name(s) of contact(s) for this submission : Abdullah Aldhahri

E-mail address(es) of contact(s) : aab.aldhahri2@gmail.com

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

Regulator or Audit and Assurance Oversight Body

Specify the type of accounting firm you represent:

Please specify:

3. Please select from the following options the geographical region that best matches you or your organization:

Middle East

4. Did you undertake outreach activities with other stakeholders outside your organization to inform your responses to this survey?

No

4A. Please provide further information about your outreach activities, including:

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).

SAMA supervises non-banking financial institutions in Saudi Arabia and directly observes the outputs of external audit engagements related to complex accounting estimates, particularly in the insurance and investment sectors.

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.

ممتازاً! وصلنا للقسم الثالث. إليك الإجابات:

(المُنقَّح) ISA 540 السؤال 6 — الرأي العام حول:

انسخ والصق هذا النص في الخانة:

"SAMA acknowledges the significant improvements brought by ISA 540 (Revised) in enhancing audit quality related to accounting estimates. The standard has strengthened professional skepticism and deepened dialogue between auditors, management, and those charged with governance, particularly in complex areas such as actuarial models and financial asset valuations. However, smaller audit firms continue to face practical challenges in applying the inherent risk factor requirements, suggesting the need for more accessible implementation guidance tailored to different firm sizes and sectors

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 non-authoritative guidance materials are generally useful, particularly the flowcharts and illustrative examples. However, more sector-specific examples for regulated industries such as insurance and investment funds would further enhance their practical value

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.					

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) 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).					
(b) More focus on understanding and testing controls related to accounting estimates.					
(c) Increased auditor attention to disclosures related to accounting estimates, including disclosures about estimation uncertainty.					
(d) Enhanced interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates.					
(e) Enhanced quality of financial reporting related to accounting estimates.					

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 interactions and communications between the auditor and management and those charged with governance related to the audit of accounting estimates.					
(b) Enhanced quality of financial reporting related to accounting estimates.					

9. Are there any additional benefits or positive outcomes arising from the implementation of ISA 540 (Revised) that you would like to highlight?

Please specify:

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 experienced or are aware of any issues or challenges related to scalability and proportionality.

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 encountered related to scalability and proportionality.

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

Smaller audit firms supervised by SAMA face disproportionate implementation burdens when applying the inherent risk factor requirements to less complex accounting estimates. The standard's scalability provisions, while present, are not always clearly understood or consistently applied across different firm sizes.

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?

Difficult to Determine

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)?

IAASB should develop sector-specific implementation guidance for regulated industries (insurance, investment funds) and simplified tools for small and medium-sized audit firms. Enhanced training programs focused on the practical application of inherent risk factors would also be beneficial.

7. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

14. Indicate the extent to which you have experienced or are aware of the following issues or challenges in applying 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.					
(b) Identifying and appropriately responding to potential indicators of management bias in the development of accounting estimates.					
(c) Appropriately considering all relevant audit evidence obtained, whether corroborative or contradictory.					

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 encountered related to exercising professional skepticism.

15. Briefly describe these or any other issues or challenges you observed related to exercising professional skepticism.

SAMA's oversight activities indicate that auditors have improved their professional skepticism overall, but challenges remain in consistently challenging management's complex assumptions, particularly in actuarial valuations and financial instrument fair value estimates within the insurance sector

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)?

IAASB should develop additional guidance on identifying and responding to management bias indicators, with practical examples specific to regulated financial sectors such as insurance reserving and investment property valuations

8. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

18. Indicate the extent to which you have experienced 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.					
(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)).					
(c) Reviewing the outcome of previous accounting estimates or, where applicable, their subsequent re-estimation (i.e., the retrospective review of accounting estimates).					
(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.					
(e) The separate assessments of inherent and control risk relating to an accounting estimate.					
(f) Whether any of the assessed risks of material misstatement are significant risks.					

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.

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*. – 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.					
(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 encountered 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.

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 most significant challenges observed relate to applying the separate assessments of inherent and control risk (e) and

understanding the interrelationship between ISA 315 and ISA 540 (b). Auditors in smaller firms particularly struggle with documenting how inherent risk factors such as complexity and subjectivity are considered in their risk assessments for accounting estimates in the insurance sector

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

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)?

IAASB should clarify the interaction between ISA 315 and ISA 540 requirements through a dedicated guidance document, and provide worked examples demonstrating the separate assessment of inherent and control risks for common accounting estimates in regulated financial sectors

9. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

22. Indicate the extent to which you have experienced 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 level from among the testing approaches in paragraph 18 of ISA 540 (Revised).					
(b) Determining whether to test the operating effectiveness of controls related to an accounting estimate.					
(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).					
(d) Testing how management made the accounting estimate.					
(e) Developing an auditor's point estimate or range.					
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.					
(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).					

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			

22A. Indicate the extent to which you have experienced the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the 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) Testing management's selection of the method, significant assumptions, and data used, including whether management's judgments give rise to indicators of possible management bias.					
(b) Understanding management's application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used.					
(c) Whether management has taken appropriate steps to understand and address estimation uncertainty, including the selection of an appropriate point estimate and developing related disclosures about estimation uncertainty.					

22A. Indicate the extent to which you have observed the following issues or challenges in applying ISA 540 (Revised) with respect to *testing how management made the 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) Testing management's selection of the method, significant assumptions, and data used, including whether management's judgments give rise to indicators of possible management bias.					
(b) Understanding management's application of the method involving complex modelling and testing complex models, including the integrity and completeness of the data used.					
(c) Whether management has taken appropriate steps to understand and address estimation uncertainty, including the selection of an appropriate point estimate and developing related disclosures about estimation uncertainty.					

22B. Indicate the extent to which you have experienced 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.					
(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.					
(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.					

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 encountered 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.

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 most notable challenges relate to developing auditor's point estimates or ranges (e) and evaluating identified misstatements against those estimates (g), particularly for complex insurance reserving and investment property valuations. Auditors in smaller firms often lack the specialized expertise needed to independently challenge management's actuarial assumptions.

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)?

IAASB should consider issuing supplementary guidance on developing auditor's point estimates for industry-specific estimates, and clarify expectations around evaluating management bias when the auditor's range differs significantly from management's estimate.

10. Section V: Potential Issues or Challenges Relating to ISA 540 (Revised) (continued)

26. Indicate the extent to which you have experienced 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).					
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).					
Documentation (c) Preparing appropriate audit documentation in accordance with the requirements in paragraph 39 of ISA 540 (Revised).					

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.

SAMA has observed that smaller audit firms face particular challenges in determining when to involve an auditor's expert for complex actuarial or valuation estimates, and in preparing sufficiently detailed audit documentation that demonstrates how inherent risk factors were considered. Documentation quality remains inconsistent across firms of different sizes

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)?

IAASB should develop practical guidance on when auditor's experts are required for common regulated-sector estimates, along with documentation templates or examples that illustrate adequate compliance with paragraph 39 requirements for firms of varying sizes

11. Section V: Impacts of ISA 540 (Revised)

10. Since the effective date of ISA 540 (Revised), indicate the extent to which you agree with the following statements about specific impacts relating to the auditing of accounting estimates as part of the audit engagement.

	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) There has been an increase in dialogue with the auditor and requests for additional documentation and evidence to support how we develop accounting estimates and related disclosures.					
(b) The interactions with the auditor about our process for making accounting estimates has led us to further challenge our approach to the selection of the method, assumptions and data used.					
(c) The interactions with the auditor about our process for making accounting estimates has led to further consideration about the disclosures related to accounting estimates, including disclosures about estimation uncertainty.					
(d) The interactions with the auditor related to accounting estimates has influenced our decisions about the need to involve a management's expert.					

11. Describe your views about these or any other impacts you have observed or become aware of, related to the application of ISA 540 (Revised) by auditors.

12. What specific suggestions do you have for how the IAASB can best address any issues or challenges related to auditing accounting estimates (e.g., standard-setting, non-authoritative guidance, or other actions)?

12. Section V: Impacts of ISA 540 (Revised)

10. From your interactions with auditors or those charged with governance of entities, or from your analysis of entities' financial reporting, indicate the extent to which you agree with the following statements about specific impacts relating to the auditing of accounting estimates as part of the audit engagement.

	4 – Strongly Agree	3 – Agree	2 – Disagree	1 – Strongly Disagree	0 – No Response
(a) The quality of the entity's disclosures in the financial statements related to accounting estimates has improved.					
(b) The communications in the auditor's report (e.g., Key Audit Matters related to accounting estimates) have improved in terms of describing the matter(s) and how the auditor has addressed the matter(s) in the audit.					
(c) Auditors are devoting appropriate attention to the entity's accounting estimates as part of the financial statement audit.					
(d) There is greater consistency in how audit firms approach the audit of accounting estimates since ISA 540 (Revised) has been effective.					

11. Describe your views about these or any other impacts you have observed or become aware of, related to the application of ISA 540 (Revised) by auditors.

12. What specific suggestions do you have for how the IAASB can best address any issues or challenges related to auditing accounting estimates (e.g., standard-setting, non-authoritative guidance, or other actions)?