ISA 540 (Revised) Post-Implementation Survey

Response ID:356 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) : EITMED
Name(s) of contact(s) for this submission : AKRAM ALI
Job title or role : Financial Manager
E-mail address(es) of contact(s) : akram.elgendi@eitmed.sa

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

Other

Please specify:

A company operating in the financial sector - consumer finance

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

Asia Pacific

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

No

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).

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, we believe ISA 540 (Revised) has largely met its intended purpose by enhancing audit quality through more robust requirements, clearer guidance, and stronger emphasis on professional skepticism in relation to accounting estimates and related disclosures. The non-authoritative implementation materials issued by the IAASB have also been helpful in supporting adoption and practical application. However, as the IAASB's post-implementation review indicates, continued monitoring remains important to address any challenges in consistent understanding and implementation.

7. Are you aware of the non-authoritative guidance and support tools developed to support the implementation of ISA 540 (Revised)?

No

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?

Yes

Please specify:

In addition to the benefits above, ISA 540 (Revised) has improved consistency in audit approach, encouraged stronger documentation of judgments and assumptions, and supported better dialogue between auditors and management on complex estimates. It has also helped auditors focus more clearly on areas most susceptible to bias and estimation uncertainty.

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.

The scalability principles embedded in ISA 540 (Revised) have generally been effective in enabling the standard to be applied across a wide range of accounting estimates. However, some practical challenges remain. In particular, auditors may exercise differing levels of judgment when determining how the spectrum of inherent risk should affect the nature, timing, and extent of audit procedures. In addition, smaller and less complex engagements may sometimes find it challenging to demonstrate compliance with all documentation and risk assessment requirements in a manner that is proportionate to the complexity of the estimate. Further practical guidance and illustrative examples could help promote greater consistency in application across firms and engagements.

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)?

The IAASB may consider providing additional non-authoritative implementation support rather than significant amendments to the standard. In particular, more practical examples, case studies, and illustrative documentation demonstrating the application of the scalability concept across different types of accounting estimates and entities would be beneficial. Additional guidance on applying the spectrum of inherent risk and determining proportionate audit responses could also help promote greater consistency in practice. Sharing implementation experiences and leading practices observed across jurisdictions may further support effective and consistent application of ISA 540 (Revised).

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 ISA 540 (Revised) has strengthened the application of professional skepticism, certain practical challenges remain. In particular, appropriately challenging management's judgments can be difficult when accounting estimates involve significant estimation uncertainty, complex models, or highly subjective assumptions. Similarly, identifying indicators of management bias often requires substantial professional judgment, especially when estimates are supported by reasonable but highly judgmental assumptions. These challenges generally arise from the inherent nature of accounting estimates rather than deficiencies in the requirements of the standard. Overall, ISA 540 (Revised) provides an appropriate framework for promoting professional skepticism, although continued implementation support and practical examples may help enhance consistency in application.

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 IAASB could best address these matters through additional non-authoritative guidance rather than significant amendments to the standard. In particular, more practical examples, case studies, and illustrative materials on applying professional skepticism, assessing management bias, and responding proportionately to varying levels of estimation uncertainty would be helpful. Additional guidance on applying the spectrum of inherent risk in practice, especially for less complex entities and estimates, could also support more consistent implementation. Sharing implementation insights and good practices across jurisdictions may further enhance consistency and audit quality.

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			

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 risk assessment requirements in ISA 540 (Revised) are generally appropriate and well aligned with the nature of accounting estimates. However, some practical challenges remain in applying them consistently, particularly when considering the interrelationship of inherent risk factors and determining how they affect the assessment of risk. In practice, greater difficulty is often experienced for estimates involving a high degree of estimation uncertainty, subjectivity, or complexity, where it may be more challenging to distinguish between inherent risk, control risk, and the implications for significant risk judgments. The retrospective review requirement is useful, although its interpretation and use may vary depending on the availability and quality of prior-period information.

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)?

The IAASB could best address these matters through additional non-authoritative guidance and practical examples rather than significant changes to the standard. More illustrative material on applying the spectrum of inherent risk, linking ISA 540 (Revised) with ISA 315 (Revised 2019), conducting retrospective reviews, and determining when risks should be treated as significant risks would be helpful. Case studies showing how these concepts apply to estimates of varying complexity and estimation uncertainty would also support more consistent implementation across different audit engagements.

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 response requirements in ISA 540 (Revised) are generally clear and well structured. However, some practical challenges remain in determining the most appropriate mix of procedures and in calibrating the extent of work to the assessed risk. In particular, developing an auditor's point estimate or range, and evaluating misstatements where management's estimate falls outside the auditor's expectation, can be demanding and often require significant professional judgment. These challenges are more pronounced for estimates involving high estimation uncertainty, complex models, or highly subjective assumptions. Overall, the standard is workable, but further practical examples on applying the response requirements to complex estimates would be helpful.

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

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)?

The IAASB could best address these matters through additional non-authoritative guidance, practical examples, and illustrative case studies rather than major standard-setting changes. In particular, guidance on selecting the most appropriate testing strategy, developing an auditor's point estimate or range, and evaluating misstatements where estimates are highly judgmental would be valuable. More examples showing how the response requirements can be scaled to different levels of estimation uncertainty and complexity would also help promote consistent application across engagements.

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.

Overall, the requirements in ISA 540 (Revised) are workable and clear. However, some practical challenges may arise in determining the extent and timing of communications with those charged with governance, particularly for estimates involving significant judgment or high estimation uncertainty. In addition, deciding when to involve an auditor's expert, and how to appropriately evaluate and rely on the expert's work, may be challenging in more complex engagements. Documentation requirements are generally manageable, although the level of detail expected can be demanding where estimates involve multiple assumptions, models, and judgments. These issues are more pronounced for complex estimates than for routine or less judgmental estimates.

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)?

The IAASB could best address these matters through additional non-authoritative guidance and practical examples. More illustrative material on communicating significant matters related to accounting estimates, determining when to involve an auditor's expert, and documenting judgments and conclusions would be helpful. Guidance on the expected level of documentation for estimates of varying complexity could also support more consistent application across engagements. Where appropriate, case studies showing coordination between the auditor, management, those charged with governance, and experts would further enhance implementation.