Response ID:380 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) : Saudi Organization for Chartered and Professional Accountants (SOCPA)
Name(s) of contact(s) for this submission : Dr. Yasser Alnafisah
Job title or role : Senior Consultant at Professional Standards Department
E-mail address(es) of contact(s) : nafisahy@socpa.org.sa

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

Jurisdictional Standard Setter (JSS) or Other Standard Setter

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?

Yes

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

The manner in which the outreach was undertaken. : We contacted the relevant regulatory bodies to share their inputs about the surveyed topic (ISA 540), and requested them as well to ask the entities over which they have oversight authority to provide thier inputs about the surveyed topic.
The nature and number (or estimate thereof) of stakeholders with whom you engaged. : Regulatory bodies (e.g. central bank and capital market authority) and the entities (companies) that falls under thier oversight authority.

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 response submitted to this survey summarizes SOCPA's view and the views recieved in the outreach activity.

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.

We found that ISA (540) (Revised) provides a detailed guidance (extensive application materials) which is responsive to the increased use of complex estimates in the financial reports. It provides clarity which should have strengthen auditors' ability to identify, assess, and respond to risk of material misstatements related to accounting estimates, promotes auditors' skeptical mindset, and supports auditors' performance of audit procedures.

We believe that the introduction of objective-based requirements, which require auditors to tailor their testing strategies specifically to the methods (including models), assumptions, and data used in developing estimates, has encouraged a deeper, more analytical approach towards a more targeted, risk-responsive work.

The greater granularity in risk assessment that the ISA 540 (Revised) demands, should have pushed auditors to dissect the estimate into its core components. This has led to a more structured evaluation of where risks truly lie; whether in the model design, the assumptions applied, or the reliability of data inputs. As a result, audit responses are now better aligned to the

nature and level of estimation uncertainty.
This increased granularity has also helped in identifying precisely where an expert is needed and why. Rather than bringing in an expert as a default step, audit teams are now better able to define the scope and purpose of the expert's involvement. Importantly, it has improved the connection between the expert's work and the overall audit strategy, ensuring that their input is not siloed but meaningfully integrated into the audit evidence.

The supporting materials has been another benefit. The flowchart in particular has proven to be a powerful tool; offering a clear, high-level map of a complex standard. It has helped teams navigate the standard's structure and apply it more confidently.

In summary, ISA 540 (Revised) has moved the audit of estimates into a more robust, risk-focused space. The emphasis on understanding the underlying estimation process, coupled with practical tools, has improved both clarity and audit effectiveness.

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:

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.

The findings of the audit quality inspections over (Small and Medium Practices (SMPs)) regarding, for instance, the lack of adequate documentation, the failure to conduct retrospective reviews of management's judgements and assumptions, and the inappropriate testing of the inputs, suggest the need for additional scalable guidance in the standard.

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)?

Additional examples that are more relatable to SMPs may help providing the specific guidance needed. This can be achieved through additional application materials and non-authoritative material (e.g. case studies).

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.

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 Response

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)?

Although we have not observed specific issues or challenges related to professional skepticism, additional guidance (in the form of non-authoritative material (e.g. practical examples, case studies (including those showing inappropriate practice of professional skpeticism during the audit of accounting estimates)) can further enhance auditors' application of professional skepticism when auditing complex accounting estimates.

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 findings of the audit quality inspections over SMPs exhibit that some SMPs have shown a failure to conduct retrospective reviews of management's judgments and assumptions, which are related to significant accounting estimates; in order to assess the reasonableness of the accounting estimates.

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?

Difficult to Determine

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)?

Generally, non-authoritative materials (in the form of practical examples); showing how the auditor apply the retrospective reviews of management's judgments and assumptions as part of the required risk assessment procedures, can help enhancing the clarity and understandability of such procedures.

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.

The findings of the audit quality inspections over SMPs exhibit that some SMPs have shown a failure in developing an independent unbiased (alternative) estimate, in order to challenge the management estimates.

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)?

Additional guidance (as application materials or non-authoritative materials (e.g. case studies, Q&A)), exaplaining how to evaluate the reasonability of an estimate and reach an overall conclusion when the difference between management's estimate and the auditor's reasonable range is considerably close, can be very useful to better application of the standards requirements.

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.

The findings of the audit quality inspections over SMPs indicate to a failure related to inadequate documentation of the engagement team's assessment of the risks of bias of the entity's management when making accounting 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?

Difficult to Determine

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)?

Non-authoritative materials (e.g. practical examples), laying out the approach to the proper documentation of the estimates assessment, can be helpful to enhance the application of the documentation requirements.