

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Teleconference
Meeting Dates: December 2, 2015

Agenda Item **A**

Project Proposal – Revision of International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Inform Representatives and Observers on the Working Group's activities since the September 2015 CAG meeting; and
 - (b) Obtain Representatives' and Observers' views on the IAASB's project proposal regarding the revision of ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

Project Status

2. At its September 2015 CAG meeting, the Working Group set out its views on the most significant challenges to audits of financial institutions arising from IFRS 9.¹ At that time, the Working Group recommended making targeted amendments to ISA 540 in the near term to address those challenges. The IAASB considered the same proposal at its September 2015 meeting.
3. The discussion at the CAG and IAASB meetings highlighted that most, if not all, of these issues would be equally relevant when auditing complex accounting estimates more generally and for in particular for audits of all entities which will have to apply IFRS 9, rather than only financial institutions. The IAASB therefore agreed that:
 - (a) A holistic revision of ISA 540 should be undertaken as a matter of priority and progress towards an exposure draft in 2016.
 - (b) Efforts will also be undertaken to develop and issue a publication in the near term to alert auditors and other interested parties to the IAASB's work in this area and its consideration of the relevant issues. This publication will also highlight how the extant ISAs and other material address the audit issues in relation to IFRS 9 for financial institutions, and signal the IAASB's plans with respect to the issues that are likely to be addressed in a revision of ISA 540.
 - (c) Supplemental activities that may be necessary in the future to address specific considerations in the audit of financial institutions, beyond those that will be addressed in the revision of ISA 540, will be considered in the future in light of the prioritization of standard-setting activities.

¹ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

This may include an International Auditing Practice Note (IAPN) addressing the relationship between auditors and banking supervisors, or other specific guidance in relation to financial institutions or IFRS 9.

4. Outreach with banking and insurance supervisors and regulators and banking experts, in particular coordination with the Global Public Policy Committee,² as well as the International Accounting Standards Board, will continue to be a fundamental aspect of the IAASB's work as it progresses a revision of ISA 540. This outreach will be in relation to financial institutions as well as other non-financial service sector stakeholders.

Matters for CAG Consideration

5. The project proposal has been reviewed by both the Steering Committee and the Working Group (see **Agenda Item A-1**). The IAASB will be asked to approve this project proposal at its December 2015 meeting. The IAASB will also discuss a draft of the project update, planned for issuance in the first quarter of 2016.
6. In summary, the project objectives outlined in the project proposal are to:
 - (a) Propose revisions to ISA 540, establishing more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional skepticism.
 - (b) Determine whether non-authoritative guidance and support tools, such as IAPNs, Staff publications, project updates or other materials, should be developed in the future to address special audit considerations relevant to financial institutions to supplement the revisions to ISA 540.
7. The scope of this project includes the development of new or revised requirements and expanded application material in ISA 540 in order to respond to the issues and concerns raised by responses to the ISA Implementation Monitoring project, the Work Plan for 2015–2016, outreach conducted by the Working Group, and the discussions in the CAG and the IAASB. In addition, inspection finding reports from audit regulatory bodies have highlighted consistent issues with respect to accounting estimates, including in relation to audits of financial institutions.
8. The IAASB will seek to make the application of the principles-based requirements in ISA 540 more clear, in particular in light of developments in accounting standards, the increasing complexity and need for management judgment in developing accounting estimates and challenges that are encountered in practice in relation to accounting estimates with high estimation uncertainty.
9. Throughout the revision of ISA 540, consideration will be given whether supplemental activities may be necessary in the future to address specific considerations in the audit of financial institutions, beyond those that will be addressed in the revision of ISA 540.

² The Global Public Policy Committee comprises the six largest international accounting networks: BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG and PwC.

Matters for CAG Consideration

1. The Representatives and Observers are asked for their views on the following:
 - Matters set out in the draft project proposal (**Agenda Item A.1**) to inform the IAASB's planned approval of the document at its December 2015 meeting; and
 - Any other matters that would be relevant to the project proposal.

Material Presented – IAASB CAG PAPER

Agenda Item A.1 Project Proposal to Revise ISA 540