

List of Possible Topics to be Included in Invitation to Comment (ITC)

1. This appendix includes a list of topics that the Financial Institutions Working Group (WG) believes should be included in Part II of the ITC as presented in **Agenda Item F**. The Financial Institutions WG believes that this public input on these topics would assist in informing the IAASB prior to the Board developing proposals that more extensively revise ISA 540.¹
 - **Scope of ISA 540:** As financial reporting has evolved, the number and importance of accounting items that meet the definition of an accounting estimate² has increased. In the ISA Implementation Monitoring findings, it was noted that some firms, national auditing standard setters, and member body respondents questioned whether ISA 540 was intended to apply to all accounting estimates, and the level of work effort required by the ISA to the simplest and most complex accounting estimates. The WG believes that the ITC should explore these issues.
 - **Use of Language:** Subsequent to the professional skepticism panel discussion at the June 2015 IAASB meeting, the WG considered whether there are particular words or approaches that reinforce a “corroboration” mentality in ISA 540. On balance, the WG’s initial view is that the specific words used in the ISA as the threshold for the auditor’s work should be examined to see if they will drive the auditor in a particular direction. For example, the term “reasonable” in paragraph 15(b) is critical to the evaluation of an accounting estimate giving rise to a significant risk, but the application material is silent on what “reasonable” means in this context. There is some application material supporting a different requirement (paragraph A78) that provides some insight, but some members of the WG question whether this is particularly helpful. Accordingly, the WG believes that input on the language used in such threshold situations would assist in informing the IAASB prior to recommending changes to these aspects of the ISA.
 - **Approach to controls and governance over accounting estimates:** As noted in Issue 1 of Agenda Item D.1, questions were raised during the WG’s outreach as to whether the auditing standards provide the auditor with sufficient guidance on how to address accounting estimates, including derivatives, that are created in extensive systems containing many processes and controls, as opposed to “one-off” calculations that may be more prevalent in some other accounting estimates. The WG believes that this topic should be put also in the ITC, as it relates to the broader approach to auditing accounting estimates. The WG sees this question as being complementary to the targeted changes and the International Auditing Practice Note (IAPN) proposed in Agenda Item D.1.
 - **Use of Experts:** As noted in paragraph 36 of Agenda Item D.1, the WG identified several issues related to the use of experts in ISA 540, and in financial institutions audits more broadly. Specifically, the WG believes the following issues should be covered in the ITC:

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

² An accounting estimate is defined in ISA 540 as “An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this ISA addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used.”

- The need for auditor's experts in certain types of audits, e.g., actuaries in insurance audits and credit risk analysts in bank audits;
- The level of understanding needed by the engagement partner to evaluate the adequacy of the work of the auditor's expert;
- The challenges auditors encounter in sourcing sufficient and appropriate expertise. This has been noted as a particular challenge in certain jurisdictions (including emerging markets) where there may be few experts available. As a result, these experts may have interests or relationships that may create a threat to that expert's objectivity.

The WG notes that reference should also be made to the PCAOB's project on the use of specialists³ as there are crossover issues with the PCAOB's work.

- Third party pricing sources (TPPS): In June 2011, the IAPN 1000⁴ Task Force noted the following in its issues paper: "A key issue of concern for the Task Force was the auditor's response to management's use of TPPS which are not management's experts. Paragraph A35 of ISA 500⁵ provides guidance on determining if such a pricing source is a management's expert. The Task Force was of the view that ISA 500 and ISA 540 together are appropriate when the pricing source is a management's expert, however, the auditor's response to a pricing source that is not a management's expert is less clear..."⁶ However, at the September 2011 IAASB meeting, the Task Force advised the IAASB that the CAG had raised a number of concerns in relation to the proposed amendments. In particular, some CAG representatives were of the view that further study and debate might provide greater clarity on the way forward regarding third-party pricing sources. Accordingly, the WG believes that the ITC would be a suitable place to obtain further views on the suitability of the proposed amendments to ISA 500 and ISA 540.

³ pcaobus.org/Standards/Pages/SCP_Specialists.aspx

⁴ IAPN 1000, *Special Considerations in Auditing Financial Instruments*

⁵ ISA 500, *Audit Evidence*

⁶ www.iaasb.org/system/files/meetings/files/6244.pdf