



Meeting: IAASB Consultative Advisory Group
Meeting Location: Paris, France
Meeting Date: March 8–9, 2016

Agenda Item

A.1

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (CAG)**

Teleconference

Held on December 2, 2015

PRESENT

Members

Matthew Waldron	Chairman
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Kristian Koktvedgaard	BUSINESSEUROPE
Mohini Singh	CFA Institute (CFA)
Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Noémi Robert	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
Michael Stewart*	International Accounting Standards Board (IASB)
David Rockwell	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Atsushi Inuma	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)

* Views expressed by the IASB Representative represent his views and do not necessarily reflect the view of the IASB.

Gaylen Hansen National Association of State Boards of Accountancy (NASBA)
Lucy Elliott Organisation for Economic Cooperation and Development (OECD)

Observers

Dawn McGeachy-Colby IFAC Small and Medium Practices (SMP) Committee
Martin Baumann** U.S. Public Company Accounting Oversight Board (PCAOB)

IAASB

Prof. Arnold Schilder IAASB Chairman
Chuck Landes IAASB Deputy Chair
Prof. Annette Köhler (Agenda Item B) IAASB Drafting Team Chair
Rich Sharko (Agenda Item A) IAASB Working Group Chair
Megan Zietsman IAASB Member
Robert Dohrer IAASB Member
James Gunn Managing Director of Professional Standards
Kathleen Healy IAASB Technical Director
Jasper van den Hout (Agenda Item A) IAASB Technical Manager
Brett James (Agenda Item A) IAASB Senior Technical Manager
Diane Jules IAASB Senior Technical Manager
Vijyata Kirpalani IAASB Technical Manager
Bradley Williams (Agenda Item B) IAASB Senior Technical Manager
Public Interest Oversight Board (PIOB) Charles Horstmann

APOLOGIES

Representatives

Vânia Borgerth Associação Brasileira de Instituições Financeiras de Desenvolvimento
Juan-Maria Arteagoitia European Commission (EC)
Marie Lang European Federation of Accountants and Auditors for SMEs (EFAA)
Dr. Obaid Saif Hamad Ali Al Zaabi Gulf States Regulatory Authorities (GSRA)

** Views expressed by PCAOB Representative represent his views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

John Kuyers	Information Systems Audit and Control Association (ISACA)
Patricia Miller	Institute of Internal Auditors (IIA)
William Hines	International Actuarial Association (IAA)
Conchita Manabat	International Association of Financial Executives Institutes – Asia Region (IAFEI-A)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Mauro Bini	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Gamini Wijesinghe	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Irina Lopez	World Bank (WB)
Wei Meng	World Federation of Exchanges (WFE)
Observers	
Simon Bradbury	International Monetary Fund (IMF)
Norio Igarashi	Japanese Financial Services Agency (JFSA)

December 2, 2015

ISA 540 / Special Audit Considerations Relevant to Financial Institutions (Agenda Item A)

PROJECT PROPOSAL TO REVISE ISA 540

Mr. Sharko introduced the project proposal and updated the CAG on the IAASB's discussions at its September 2015 meeting. Mr. Sharko highlighted the objectives, scope, timeline, the issues that will be addressed, and how the project serves the public interest. He explained that the IAASB will be asked to approve the project proposal at its December 2015 meeting and will take into account the comments and observations made by the CAG.

Representatives and Observers had the following comments and observations:

- Messrs. Baumann, Dalkin, Hansen, Iinuma, James, Rockwell, Stewart, Thompson, and Yurdakul, as well as Mmes. Elliott, Molyneux, McGeachy, and Singh supported the project to revise ISA 540.¹ Mr. Baumann noted that almost every important number in the financial statements is an accounting estimate, accounting estimates are often complex to calculate and to audit, and many inspection findings relate to auditing accounting estimates.
- Messrs. Dalkin, Michel, Rockwell, and Kazuhiro noted support for the IAASB's and Working Group's change in direction to focus on a more holistic revision of ISA 540.
- Messrs. Stewart and van der Ende and Ms. Molyneux agreed, but continued to be of the view that there are specific issues related to auditing accounting estimates for financial institutions, particularly for larger financial institutions, that should also be addressed by the Working Group in this project. Ms. Molyneux therefore supported the Working Group's plan to address issues related to accounting estimates in financial institutions by issuing International Auditing Practice Notes (IAPNs) or other non-authoritative material specifically for financial institutions. Mr. Thompson agreed, noting that the ISAs should be applicable for all audits and that industry-specific matters can be addressed in IAPNs or other non-authoritative material. On the other hand, Mr. Rockwell noted his preference to address the issues identified within the ISAs as much as possible, in light of the due process attached to the ISAs, while recognizing the balance between principles and detailed guidance. Mr. Koktvedgaard noted that the Working Group needs to strike the right balance in addressing certain issues holistically and others for financial institutions only.
- Mr. van der Ende was of the view that, while the project proposal presented a complete list of issues, the project proposal could give more prominence to the role of those charged with governance; identification of, and work effort on, significant risks; having the right expertise given the complex business environment; challenging management's assumptions; systems and governance; and the dialogue with the financial institution's regulatory supervisor.
- Messrs. Iinuma, Michel, Rockwell, and Stewart, as well as Mmes. McGeachy and Robert, noted that there should be a strong link in the project proposal between the project to revise ISA 540 and the project on professional skepticism, as many inspection findings with respect to accounting estimates related to professional skepticism. Mr. Sharko agreed.

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

- Mr. Koltvedgaard expressed the view that too much detail in the ISA may contradict the IAASB's principles-based approach to standard-setting. Ms. Robert and Messrs. Michel and Kazuhiro agreed. Messrs. Michel and Kazuhiro added that too much focus on details could lead to less professional judgment. Mr. Baumann disagreed and was of the view that a principles-based standard on accounting estimates will lead to more inspection findings.
- Mr. James highlighted the importance of experts in auditing accounting estimates, particularly for financial institutions, because of the judgments involved in, and the size of, the collective provision. He noted that the IAASB may need to undertake a separate project on the use of auditor's experts.
- Mr. Baumann agreed with the importance of experts in auditing accounting estimates and noted that, because of the close relationship between accounting estimates and experts, the PCAOB was advised to coordinate changes between the standards. Mr. Thompson noted it would be useful if the IAASB's project to revise ISA 540 and the PCAOB's project on auditing accounting estimates and fair value measurements can be aligned. Mr. Baumann agreed, noting that the IAASB and PCAOB have already had a constructive dialogue on this topic, and the PCAOB is hoping to work closely with the IAASB on this project in 2016.
- Mr. van der Ende emphasized the importance of continued outreach, specifically with the Global Public Policy Committee (GPPC) and the Basel Committee, given the complexity of the matters. Mr. Sharko confirmed that the Working Group will continue its outreach effort during the revision of ISA 540, including with the organizations highlighted by the CAG representatives and observers.
- With respect to the effects on small and medium practices, Mr. Stewart noted that the complexity of auditing accounting estimates is not driven by the size of the entity, but is based on the circumstance of the audit. Mr. Kazuhiro noted that the revisions to ISA 540 should allow auditors to have sufficient time and flexibility to use their professional judgment in determining which risks are significant to the audit.
- Mr. Baumann noted that the project proposal only addresses third-party pricing services used by management and suggested reference should be made to auditors' use of third-party pricing services. He also explained his view that third-party pricing services are different from experts in many respects. For example, experts provide customized work while third-party pricing services provide a standardized product.
- Mr. Hansen noted that, given its importance, the relationship between the financial institution's regulatory supervisor and the external auditor should be included more explicitly in the project proposal. With respect to this relationship, Mr. Stewart noted that some could see the enhanced communications between the financial institution's supervisor and the external auditor as the auditor abrogating audit responsibilities to the regulator.
- Mr. James noted that the project proposal was written at a high level and highlighted that further emphasis could be given within the project on what a complex and a non-complex estimate is, guidance on documenting the cause of audit differences, guidance on how to extrapolate identified

differences, and highlighting that there are also other financial reporting standards (besides IFRS 9)² that require the development of complex accounting estimates, such as IAS 36.³ Mr. James also suggested ISA 540 could include additional guidance on how the auditor can identify management bias.

- Ms. Elliott questioned why the governance over complex models is not included in the section that addresses the need for ISA 540 to remain fit for purpose in light of today's evolving and complex business environment.
- Mr. Michel noted that top-down analytical procedures in the planning and completion phases of the audit can assist auditors in forming an overall conclusion as to whether the accounting estimates in the financial statements are consistent with the auditor's understanding of the entity.
- Mr. Yurdakul noted his preference to enhance audit documentation requirements when revising ISA 540, as inspection findings highlight that not all audit work related to accounting estimates is documented in the audit file.
- Ms. Singh supported the diverse backgrounds of the members of the Working Group. Mr. Kocktvedgaard added that it is important to have members with a non-financial institution background in the Working Group as well.

TIMETABLE

- Mr. Hansen, as well as Mmes. McGeachy, Robert and Singh, was supportive of the proposed timeline and had no additional comments. Ms. Molyneux was also supportive of the timeline, but emphasized the importance of the IAASB meeting its key milestones as included in the timeline, in light of the effective date of IFRS 9. Ms. Healy noted that the timeline is aggressive but that the outreach already conducted by the Working Group and future outreach might be helpful in addressing the right issues on a timely basis.
- Mr. van der Ende noted the planned approval of ISA 540 (Revised) in Q4 2017, but also noted that the process of implementation of IFRS 9 in financial institutions will be a critical challenge during 2016 and 2017. He noted that the Basel Committee has been aware of this project and believes that completing this project in the proposed timeline will be challenging. Mr. van der Ende questioned which safeguards are in place to mitigate the risk of delays in the project and suggested that the project proposal include a more detailed timetable. Mr. Sharko and Ms. Healy noted that the project update, which will be released in Q1 2016, might alleviate some of the timing concerns, as it will highlight relevant audit issues in relation to IFRS 9 for financial institutions and will signal the IAASB's plans with respect to the issues that are likely to be addressed in a revision of ISA 540.
- Mr. Iinuma noted the importance of having sufficient resources available for this project. Ms. Molyneux and Mr. van der Ende agreed. Mr. Sharko and Ms. Healy noted that staffing of this project will be discussed in the IAASB's Steering Committee.
- Mr. Stewart and Ms. Molyneux recommended developing the proposed non-authoritative guidance simultaneously with the revision of ISA 540 given the demands from stakeholders. Mr. Kazuhiro

² International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

³ International Accounting Standard (IAS) 36, *Impairment of Assets*

agreed and noted that it would be useful to include the development of the non-authoritative guidance in the timetable. Ms. Healy noted that the revised version of ISA 540 will be used as the base for the non-authoritative guidance and, therefore, the non-authoritative guidance cannot not be efficiently developed simultaneously.

- Mr. van der Ende expressed a preference to have regular conference calls and meetings between the Working Group and the CAG to keep the CAG informed about the progress and to give the CAG the opportunity to provide timely comments. Mr. Koktvedgaard noted the teleconference calls do not provide the opportunity to have robust discussions. Ms. Healy added that the March and September 2016 CAG meetings will be critical.

PIOB OBSERVER REMARKS

Mr. Horstmann noted that the Working Group and Staff have been responsive to the comments at the last CAG meeting and prepared a comprehensive project proposal. He noted the importance of this project and acknowledged the importance of having regular interactions with the CAG to get timely input, and the importance of continuous outreach with the Basel Committee, the GPPC, the PCAOB, and others. With respect to the issues raised by the CAG representatives and observers, he agreed that there is a delicate balance between having principles-based standards and the need to provide sufficient requirements and guidance in the ISAs. He also noted the linkages with the professional skepticism project and the use of auditor's experts.

ISA 810 (Agenda Item B)

Prof. Köhler introduced the topic, noting that the IAASB would be asked to approve consequential amendments to extant ISA 810⁴ as a result of the release of its new and revised Auditor Reporting standards, in particular the auditor reporting enhancements relating to key audit matters, going concern and other information. Köhler explained that the IAASB will consider the issues raised by respondents to the ED, concerns raised by Representatives and Observers during the teleconference and Drafting Team recommendations at its December 2015 meeting. She reiterated the limited nature of the proposed amendments to ISA 810 in line with the Auditor Reporting project proposal previously approved by the IAASB and as previously discussed with Representatives and Observers, and noted that the Drafting Team continued to recommend this approach.

Prof. Köhler provided an overview of the significant matters raised by respondents to the ED and explained how they had been addressed in the revised draft of the proposed standard, drawing the Representatives and Observers attention to **Agenda Items B.1 and B.2**.

Representatives and Observers had the following comments and observations:

- Messrs. Dalkin, Iinuma, Rockwell, Stewart, Thompson, van der Ende, and Yoshii and Mmes. McGeachy and Robert were supportive of the recommendation of the Drafting Team, including the proposed changes to ISA 810, and had no additional comments.
- Mr. Hansen, while acknowledging the limited scope of the project, noted a concern with the dating of the auditor's report on the summary financial statements, in particular in cases where the auditor's

⁴ ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

report on the summary financial statements is dated later than that the auditor's report on the audited financial statements. Mr. Hansen suggested that the IAASB may want to reconsider whether allowing for this possibility is necessary or appropriate, in light of the practical considerations, such as management representations and the potential effect on the auditor's risk assessment. Mr. Baumann shared Mr. Hansen's concern, noting he would expect that, if the auditor's report on the summary financial statements is dated later than the auditor's report on the audited financial statements, the auditor would need to perform some additional work to determine that there are no other events that need to be considered. Mr. Baumann also reiterated his overarching concern with ISA 810, stating again that he believes users of the financial statements should be reading the audited financial statements and not a summary thereof.

- Mr. Yurdakul was of the view that readers of the summary financial statements and the auditor's report thereon may not read the audited financial statements and the auditor's report thereon. He therefore believed it would be important to include the name of the engagement partner in the auditor's report on the summary financial statements of listed entities.
- While agreeing with the proposal to refer to a statement in the auditor's report on the audited financial statements that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised),⁵ Mr. Michel suggested it would be more relevant to explicitly describe this circumstance in the auditor's report on the summary financial statements.
- Mr. Yurdakul also noted that there should be consistency in:
 - The words used in proposed paragraph 17A(a) and proposed paragraph 17A of ISA 810 (Revised), in particular the need to refer to an *uncorrected* material misstatement of the other information; and
 - Proposed paragraph 24 of ISA 810, which explains that the auditor should read and consider whether there is a material inconsistency between the other information and the summary financial statements and whether the other information is otherwise misleading.

Prof. Köhler thanked the Representatives and Observers for all of their comments, and noted the IAASB would consider all of them at its meeting the following week in finalizing ISA 810 (Revised). This consideration would include whether the comments relate to issues beyond the limited scope of the project. Ms. Healy noted that, should ISA 810 (Revised) be approved at the IAASB's meeting the following week, it will be effective for auditor's reports on summary financial statements for periods ending on or after December 15, 2016 – in line with the changes to auditor's reports on general purpose financial statements.

Closing Remarks

Mr. Waldron thanked the CAG Representatives and Observers for their comments provided during the teleconference. He also thanked the IAASB Chairman, members and Staff for their contributions. He then closed the meeting.

⁵ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*