

**Minutes of the 74th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on January 25, 2016 by teleconference**

Voting Members

Present: Prof. Schilder (Chairman)
Charles Landes (Deputy Chair)
Abhijit Bandyopadhyay
Jean Blascos
Fiona Campbell
Robert Dohrer
Karin French
Marek Grabowski
Merran Kelsall
Brendan Murtagh
Marc Pickeur
Ron Salole
Rich Sharko
Sayaka Sumida
Imran Vanker
Ge Zhang
Megan Zietsman

Technical Advisors

Sara Ashton (Ms. French)
Wolf Böhm (Ms. Köhler)
Dora Burzenski (Ms. Zietsman)
Ahava Goldman (Mr. Dohrer)
Alejandro Gonzalez (Mr. Coscodai)
Hiram Hasty (Mr. Landes)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Blascos)
Jamie Shannon (Mr. Sharko)
Eric Turner (Mr. Salole)
Denise Weber (Ms. Campbell)
Cindy Yang (Mr. Zhang)

Apologies: Annette Köhler
Chun Wee Chiew (Mr. Murtagh)
Sachiko Kai (Ms. Sumida)
Richard Mifsud (Ms. Kelsall)
Inge Vanbeveren (Mr. Pickeur)

Non-Voting Observers

Present: Norio Igarashi (Japanese Financial Services Authority), Matthew Waldron (IAASB Consultative Advisory Group (CAG) Chairman)
Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Michael Holm

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Kathleen Healy (Technical Director), Beverley Bahlmann, Brett James, Nancy Kamp-Roelands, Vijyata Kirpalani, Natalie Klonaridis, Jasper van den Hout, Bradley Williams.

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/iaasb-conference-call-january-25-2016>. Meeting minutes are a summary of the decisions made at IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts of the IAASB's proposals, consideration of previous discussions of the Board and its Consultative Advisory Group (CAG), and feedback from stakeholders through outreach activities.

1. Welcome

Prof. Schilder welcomed all participants to the meeting.

2. ISA 540¹ Project Publication

Mr. Sharko introduced **Agenda Item 1-A**, the draft publication, *The IAASB's Project To Revise ISA 540: An Update on the Project and Initial Thinking on the Auditing Challenges Arising from the Adoption of Expected Credit Loss Models* (the Project Publication).

In general, the Board was supportive of publishing the Project Publication, but noted some areas where further improvements could be made. The ISA 540 Task Force was asked to further consider:

- Explaining how the project that was included in the IAASB's *Work Plan for 2015–2016*² (the Work Plan) has evolved from a project that was focused on financial institutions to a project focusing on revising ISA 540, as well as explaining how the Task Force will address issues, other than those related to IFRS 9,³ that are specific to financial institutions. In that respect, it was suggested that changes to Part A to explain more clearly why the IAASB is holistically revising ISA 540 would be useful. In addition, it was specifically noted that the statement "ISA 540 does not warrant a fundamental overhaul or change in overall approach" could prejudice the work of the Task Force.
- Finding a balance between regularly updating stakeholders on the project's progress and avoiding an onerous process to update the Project Publication. The Task Force was asked to explain this more clearly in the Project Publication to avoid creating an expectation of regular Project Publications.
- Explaining the status of the Project Publication more clearly (namely, that it has been prepared by the Task Force and is not authoritative) and explaining why, and for whom, the publication is being issued so that readers who have not been following this project have a clear understanding about the context of the Project Publication.

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

² <https://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

³ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

- Explaining that the Task Force has done a significant amount of outreach to identify audit issues relevant to financial institutions, while highlighting that more outreach will be conducted with stakeholders from other than financial industries.
- Moving Part B in front of Part A. Some Board members were of the view that Part B should come before Part A given that it is the most useful, and therefore most important, part for practitioners. Others disagreed and highlighted that Part A sets the context for Part B.
- Modifying the “Areas to be explored in the ISA 540 project” box related to Section B-3 in the Project Publication. Concern was expressed that, as currently drafted, this section could be interpreted that under extant ISA 540 it is not permitted to perform procedures on individual elements of a large, complex model specific procedures as a way of accumulating audit evidence. It was noted that, in practice, this option is used as it sometimes is the only way to audit complex accounting estimates.
- Throughout the publication, emphasizing the importance of professional skepticism when auditing accounting estimates, including when considering contradictory evidence. For example, it was suggested that the section that discusses model development and validation could highlight the importance of the auditor challenging the model assumptions used by management instead of simply obtaining an understanding and validating the model.
- Emphasizing the importance of disclosures throughout the Project Publication, in particular the auditor’s responsibility with respect to the adequacy of disclosures when dealing with an accounting estimate that has a reasonable range that is larger than performance materiality.
- Emphasizing the importance of testing the operating effectiveness of controls in Sections B-1 and B-4 of the Project Publication, given that the development of some accounting estimates requires extensive reliance on information technology systems and use of large volumes of system-generated data.
- Including references to the United States Public Company Accounting Oversight Board’s work on specialists and the 2014 publication of the Basel Committee on Banking Supervision, *External Audits of Banks*.⁴
- Whether the transitional disclosures to the ECL model as noted in paragraph 29(d) should be given greater emphasis as this was seen to be a significant topic on which auditors will focus in the coming years.
- Whether Section B-4, *Governance and Controls over Models and Data*, should come before Section B-3, *Audit Procedures on Models: Understanding and Assessing Models and Controls Thereon*, to bring it in line with the audit process.
- Various other changes and editorials to clarify certain matters, or provide additional insight, throughout the document, including to not appear presumptive about certain courses of action.

3. PIOB Comments

Mr Holm supported the Project Publication and noted the importance of meeting the timeline as communicated. He also noted the importance of public communications with respect to this project and supported further publications by the Task Force.

⁴ <http://www.bis.org/publ/bcbs280.pdf>

4. Consultative Advisory Group Chair's Remarks

Mr. Waldron supported the Project Publication noting that the publication is representative of the CAG's views on what the significant issues are with respect to ECL models.

5. Next Meeting

The next meeting of the IAASB is scheduled for March 14–18, 2016 in New York, USA.

6. Closing

Prof. Schilder thanked the IAASB members, technical advisors, observers, and Staff for their contributions. He noted that the Project Publication would be amended by the Task Force to address the IAASB's comments, and that it would be released after approval by himself and the Technical Director. He then closed the meeting.