

**Minutes of the 80<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held on November 1st, 2016 by teleconference**

**[Marked for IAASB Comments]**

**Voting Members**

Present: Prof. Schilder (Chairman)  
Charles Landes (Deputy Chair)  
Abhijit Bandyopadhyay  
Jean Blascos  
Fiona Campbell  
Robert Dohrer  
Karin French  
Marek Grabowski  
Merran Kelsall  
Annette Köhler  
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)  
Hiram Hasty (Mr. Landes)  
Susan Jones (Mr. Blascos)  
Josephine Jackson (Mr. Grabowski)  
Jamie Shannon (Mr. Sharko)  
Eric Turner (Mr. Salole)  
Inge Vanbeveren (Mr. Pickeur)  
Sanjay Vasudeva (Mr. Bandyopadhyay)  
Denise Weber (Ms. Campbell)  
Chun Wee Chiew (Mr. Murtagh)

Apologies:

Nicolette Bester (Mr. Vanker)  
Rene Herman (Ms. Kelsall)  
Sachiko Kai (Ms. Sumida)  
Cindy Yang (Mr. Zhang)

**Non-Voting Observers**

Present: Matthew Waldron (IAASB Consultative Advisory Group Chairman)

Apologies: Juan Maria Arteagoitia (European Commission), Norio Igarashi (Japanese Financial Services Authority)

### **Public Interest Oversight Board (PIOB) Observer**

Present: Chandurashankar Bhave

### **IAASB Technical Staff**

Present: Beverley Bahlmann, Brett James, Vijyata Kirpalani, Natalie Klonaridis Jasper van den Hout, Bradley Williams, James Gunn (Managing Director, Professional Standards)

Apologies: Schuyler Simms

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at [www.iaasb.org/meetings/iaasb-conference-call-november-1-2016](http://www.iaasb.org/meetings/iaasb-conference-call-november-1-2016). Meeting minutes are a summary of the decisions made at IAASB meetings, 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**

Mr. Landes welcomed all participants to the meeting.

## **2. ISA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

Mr. Sharko updated the IAASB on the Task Force's activities since the September 2016 IAASB meeting and highlighted the four topics for which the Task Force would like to receive input. The four topics were the use of the word "reasonable" in ISA 540, the threshold for when further specific procedures are required, requirements for accounting estimates that give rise to significant risks, and the updated requirement related to disclosures.

### THE USE OF THE WORD "REASONABLE"

The Board had mixed views whether the term "reasonable" should be avoided in relation to accounting estimates. Some members were of the view that "reasonable" does not fundamentally enhance the application of professional skepticism, it does not prescribe a sufficiently rigorous level of scrutiny and noted that it is hard to define precisely what reasonable means. Other members questioned whether it is needed raise the bar beyond reasonable, as this has been effective in practice, and noted that the auditor also gives 'reasonable assurance'.

The Board also asked the Task Force to consider the following matters with respect to using the term "reasonable":

- In relation to the alternative terms "appropriate" and "acceptable", it was noted that "appropriate" sounded like a higher threshold than "acceptable" but that both terms have an element of subjectivity, just like reasonable. It was therefore questioned whether changing the term "reasonable" to one of the other terms would fundamentally change the auditor's attitude.

- Whether other options could be explored. In that respect it was suggested to include application material that explains what the Task Force's intent~~d~~ is with the term "reasonable."

With respect to the revised objective the Board did not generally support including the reference to management bias.

The Board asked the Task Force to consider whether linking the objective to the applicable financial reporting framework instead of reasonable could be seen as lowering the bar, assince the accounting estimates would only have to comply with the financial reporting framework, and not also be subject to whether they are considered "reasonable."

#### THRESHOLD FOR FURTHER SPECIFIC PROCEDURES

The Board had mixed views whether a threshold is needed in proposed draft ISA 540 (Revised). Some members noted that having the threshold would be responsive to the concerns of the small and medium practitioners. Others noted that the ISAs are scalable and that a threshold in the standard would put too much focus on the threshold instead of the characteristics of the assessed risks.

If a threshold is to be applied, the Board supported that the threshold should be based on the assessed risk of material misstatement level instead at the factor level (that is, complexity, judgment, estimation uncertainty) as this was in accordance with the current approach in ISA 330.<sup>1</sup> The Board generally supported using the word 'low' as it was seen to be more precise and less subjective. However, other Members supported the use of 'lower' and noted that 'low' is too definitive and that 'lower' indicates a range. Another Board member pointed out that the use of terms like "low" or "lower" needs to be consistent with the term used to describe the overall objective of an audit ("acceptably low level of risk of material misstatement").

#### PROCEDURES TO RESPOND TO SIGNIFICANT RISKS

The Board supported the direction and was generally of the view that no specific requirements are needed for accounting estimates that give rise to a significant risks. The Board noted that a final decision would be dependent on how the other work effort requirements dealt with the issues.

#### DISCLOSURES

In general, the Board supported the revised disclosure requirements.

The Board asked the Task Force to consider whether:

- The requirement is at the right level as a requirement which is too high level would not be effective; and
- Conforming amendments to ISA 700 (Revised)<sup>2</sup> or a cross reference to ISA 700 (Revised) should be made in case the auditor should evaluate the adequacy of the disclosures of the estimation uncertainty in the financial statements.

### 3. PIOB Observer Remarks

Mr. Bhave thanked the Board for their comments and the lively discussion. With respect to the threshold

<sup>1</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>2</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

for when further specific procedures are required, Mr. Bhave noted that by defining matters too precisely the threshold becomes very complicated which is not in the public interest. He therefore asked the Task Force to consider to make the threshold as simple as possible, recognizing the complexity of the topic. In relation to the other questions he appreciated the comments made about the inclusion of management bias in the objective.

**4. IAASB Consultative Advisory Group Chairman's Remarks**

Mr. Waldron noted that the objective will benefit from some further discussions by the Task Force and noted that it was a discussion that would be of interest to CAG Representatives at a later date.

**5. Next Meeting**

The next meeting of the IAASB is scheduled for December 5–9, 2016 in New York, United States of America.

**6. Closing**

Mr. Landes thanked the IAASB members, technical advisors, observers, and Staff for their contributions. He then closed the meeting.