

## Financial Institutions

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# Summary of Board Discussion

- Helpful discussion
- Noted the Board's support for:
  - Including a specific focus on complexity in ISA 540
  - Making ISA 540 scalable, but keeping all estimates in ISA 540 and we noted the various suggestions for how that might be progressed.
  - Further work on third party data sources and the distinction from management's expert
  - Continued focus on disclosures

# Summary of Board Discussion

- Other points to consider:
  - Various suggestions regarding the approach to enhancing professional skepticism throughout the standard
  - Need to clarify/revisit “governance” and “key data and assumptions”
  - Risk Assessment: Not a lot of support for rebuttable presumption; need to have a closer look at emphasizing the spectrum of risk and appropriate responses but need to respond to regulator concerns that ECL is always a significant risk

# Summary of Board Discussion

- Other points to consider:
  - Many good suggestions around paragraph 13
    - Need to find a way to express the relationship between the risks and related work effort
  - Need to emphasize that the auditor cannot reduce estimation uncertainty

# Joint Meeting of ISA 540/Professional Skepticism/ISA 315/Data Analytics

- Engaging discussion between the various Task Force and Working Groups
- After an initial discussion of some common issues, the focus shifted to what the ISA 540 Task Force needs from the various WGs:

# Professional Skepticism Working Group

- Need to accelerate their discussions
  - Working within the existing professional skepticism “paradigm” - what can be done right now?
  - Paper on standard-setting implications at the June meeting?
- IAASB-related representatives on the PSWG may need to meet/progress their thinking separately from the PSWG’s representatives from other Boards

# Professional Skepticism Working Group

- Specific areas for consideration for PS (in addition to PS-related areas flagged in Issues Paper)
  - Impact on risk assessments – how to build into 540?
  - Role of PS in considering contradictory evidence/weighing evidence
  - Knowledge of the business model required to be able to challenge mgt – important also for ISA 315 WG
- Neutral/open mind → Alternatives?

# ISA 315 Working Group

- Recognition that ISA 540 will have to progress based on extant ISA 315
  - Should include hooks that relate to likely future direction of ISA 315
- ISA 540 Task Force to consider whether we can more strongly link ISA 315 and ISA 540 to avoid repetition and to better align language

# ISA 315 Working Group

- Key areas for interaction
  - Is it likely that the existing normal risk/significant risk model will continue?
  - What areas of understanding the entity and risk assessment procedures could be enhanced in ISA 540?
  - Which standard should deal with requests for more on controls, general IT controls, governance over models/data/estimation process

# Data Analytics Working Group

- Data Analytics WG
  - Not as many interactions likely needed
  - Recognition that nothing in the standards prohibits DA
  - DAWG to give input to ISA 540 Task Force on what DA material needs to be in ISA 540
    - DA may be helpful for backtesting some valuations

# Way Forward

- Way forward:
  - Task Force to meet physically twice before June IAASB meeting
  - Chairs of the ISA 540/Professional Skepticism/ISA 315/Data Analytics groups to meet via teleconference
  - Outreach with CAG, SMPC, others
    - Non-financial institution related
    - Ongoing financial institution related outreach



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