

Minutes of the 78th Meeting of the INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

Held on July 26th, 2016 by teleconference

Voting Members

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

Apologies: Robert Dohrer
Annette Köhler

Technical Advisors

Sara Ashton (Ms. French)
Nicolette Bester (Mr. Vanker)
Wolf Böhm (Ms. Köhler)
Dora Burzenski (Ms. Zietsman)
Ahava Goldman (Mr. Dohrer)
Hiram Hasty (Mr. Landes)
Susan Jones (Mr. Blascos)
Jamie Shannon (Mr. Sharko)
Eric Turner (Mr. Salole)
Denise Weber (Ms. Campbell)
Chun Wee Chiew (Mr. Murtagh)

Sachiko Kai (Ms. Sumida)
Josephine Jackson (Mr. Grabowski)
Inge Vanbeveren (Mr. Pickeur)
Cindy Yang (Mr. Zhang)

Non-Voting Observers

Present: Matthew Waldron (IAASB Consultative Advisory Group (CAG) Chairman)

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

Public Interest Oversight Board (PIOB) Observer

Present: Michael Holm

IAASB Technical Staff

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

Apologies: Natalie Klonaridis, Schuyler Simms

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-july-26-2016>. 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

Prof. Schilder welcomed all participants to the meeting.

2. ISA 540¹ – The Audit Implications of External Assistance in Making an Accounting Estimate

Mr. Sharko and Mr. Pickeur introduced the topic by highlighting previous Board discussions on the use of external data sources, the scope of the proposed changes and the difference between a management's expert and an external data source. Mr. Sharko and Mr. Pickeur also updated the Board on the ISA 540 Task Force's (the Task Force) proposed related application material in ISA 540, which deals with management's use of an external model and the auditor's use of an expert.

In general, the Board noted support for:

- The consideration of prices and other data obtained from external sources together, and the use of the term "external data source" for data and prices obtained from external data sources.
- The Task Force's direction with respect to the auditor's work effort over data from external data sources.
- The Task Force's view that external models should not be included in the scope of guidance on external data sources, but that requirements or guidance in ISA 540 should direct the auditor in designing and performing appropriate audit procedures to address risks related to external models.
- The Task Force's view that it would be useful to add application material in ISA 540 that:
 - Emphasizes the importance of using an auditor's expert and the circumstances when use of an auditor's expert would likely be expected when dealing with accounting estimates;
 - Explains the scope of the work to be performed by the auditor on the auditor's expert's work in respect to accounting estimates; and
 - Includes examples of areas where the auditor might use an auditor's expert.

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

The Board asked the Task Force to consider the following:

- Whether the definition of a management's expert should be changed and whether a definition of "external data source" should be added. In this light, the Board also asked the Task Force to consider whether to base the distinction between an external data source and a management's expert on whether or not the data is specifically generated for the entity or whether the data is widely available, as well as whether it is relevant that a fee needs to be paid to access the data.
 - The Board was generally of the view that these factors (specifically generated for the entity or whether the data is widely available) are clearer, and would work better in practice, than the factors identified by the Task Force as, for example, some data from external data sources would require complex calculations. The Board noted that there is no bright line between external data sources and a management's expert and therefore questioned whether there should be a distinction in the auditor's work effort over data obtained from a management's expert and an external data source.
 - One Board member noted that some external data sources may be less susceptible to management influence, as their data is publically available. In this circumstance, the Board member questioned what management should do to meet its responsibilities relating to ensuring the reliability of the data used in preparing the financial statements and what auditors should do to meet their responsibility for obtaining relevant and reliable audit evidence.
 - One Board member noted that the use of the terms "data" and "information" does not appear to be in line with the current usage in ISA 500. Data and information might need to be treated differently by auditors, since data is nonjudgmental, whereas information is. Furthermore, some external sources of data or information are accountable to management, and some are not. This may also have an impact on management and auditor responsibilities.
- Whether to make changes to the proposed application material related to the definition of a management's expert.
 - The Board noted that the application material mainly focuses on the definition of an external data source is and does not address what a management's expert is. The Board highlighted that it would be useful to see the application material on the definition of a management's expert together with the application material on the work effort over data from external sources.
- How the ISA should address concerns over the possibility that the same external data source is used by both management and the auditor. The Board encouraged the Task Force to develop application material to explain how the auditor could address this situation. The Board also noted that, in some circumstances, there may only be a single data source available and the Task Force should consider working with regulators to address this situation.
- Whether it would be necessary to address the work effort over external data sources in ISA 540 until the Board decides whether to commence a project to revise ISA 500.²
- Whether application material could be drafted to provide guidance on the situation when the auditor gives a scope limitation due to an inability to obtain an understanding of how the external data source generates the data.

² ISA 500, *Audit Evidence*

- Whether to include examples of how the auditor may address data from internal and external sources in a consistent manner, as the principles are likely to be similar, but aspects of the auditor's considerations may be different.
- Whether and, if so, how the work effort on models obtained from an external source should be different to the work effort for internally developed models.
 - Some Board members were of the view that the risks related to an internally developed model are different because there might be a higher risk of management bias and errors. Further, an internally developed model may not be tested and externally validated to the same degree as a model developed by an external source who is offering it as a commercial product.

With respect to management's use of external models and the auditor's use of an expert, the Board noted that application material would be useful to specifically address:

- Circumstances in which the use of an auditor's expert would be useful, including circumstances related to non-financial institutions;
- Guidance on what constitutes auditor's working papers when an internal specialist is used;
- Whether the use of a management's expert would always give rise to the use of an auditor's expert; and
- Circumstances in which the auditor would need to develop its own model.

3. PIOB Observer Remarks

Mr. Holm supported the Board having the discussion on external data sources at this stage of the project to allow sufficient time to finalize this part of the revision to ISA 540. He also supported the Task Force reaching out to regulators to obtain their views on the circumstance when only a single external data source is available. With respect to the use of models, Mr. Holm highlighted the importance of using the correct assumptions and having appropriate controls around changes made to models, as small changes to a model can have a significant impact on the results.

4. IAASB Consultative Advisory Group Chairman's Remarks

Mr. Waldron noted it was a discussion that would be of interest to the CAG at a later date.

5. Next Meeting

The next meeting of the IAASB is scheduled for September 19–23, 2016 in Hong Kong, China.

6. Closing

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