

10 July 2017

Chair, International Auditing and Assurance Standards Board

*Via Submit a Comment link on IAASB website*

To whomever it may concern

**Submission on Exposure Draft on Proposed International Standard on Auditing 540 (Revised): Auditing Accounting Estimates and Related Disclosures**

Thank you for the opportunity to provide a submission on the Exposure Draft on Proposed International Standard on Auditing (Revised): Auditing Accounting Estimates and Related Disclosures ("the ED").

The Australian Institute of Company Directors (AICD) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD are concerned that the proposals will significantly increase the level of audit work undertaken and therefore increase audit costs, for no obvious benefit to stakeholders. We understand that the changes are a result of an increase in focus on the auditing of accounting estimates for financial institutions arising from concerns expressed by regulators. Further, we understand the application of the new IFRS 9 *Financial Instruments* from 1 January 2018 will have an impact on loan loss provisioning methodologies for some large and complex organisations in some jurisdictions.

However, in our view these developments do not warrant a wholesale change to the audit methodology for auditing accounting estimates for all organisations, many of which are not large or complex or financial institutions and will not be overly impacted by the new loan loss provisioning requirements.

Those areas where we see an increase in audit effort without commensurate benefits include:

- the need for the auditor to re-perform estimates that have been undertaken by management. Specifically, this relates to the requirement of the auditor in certain cases to develop a point estimate or a range to evaluate management's point estimate. We consider the current requirements (assessment of the inputs to the model, being satisfied with the operation of the model itself, and testing controls around the use of the model) sufficient in the case of most accounting estimates; and
- the application of the proposals to all estimates, irrespective of the extent of the risk of material misstatement to the financial report.

We found the explanatory memorandum along with the standard and accompanying application guidance lengthy, repetitive and difficult to assess the impacts on preparers and directors. We recommend that the impact of future proposals on these particular stakeholders, along with costs and benefits, to be clearly articulated in non-technical language in the accompanying material and that the standard and application guidance is better integrated to avoid repetitiveness.

Further, within these proposals there were several references to what management or those charged with governance may do or provide to the auditors. The AICD recommends that if there are additional requirements of management or those charged with governance, these requirements are placed in the relevant financial reporting standards and consulted on accordingly and not the audit standard. The auditing standards are not referred to by those stakeholders in their preparation of the financial report.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 61 (0)2 8248 6635 or at [khicks@aicd.com.au](mailto:khicks@aicd.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal stroke extending to the right.

**LOUISE PETSCHLER**  
General Manager, Advocacy

CC: Chair, Auditing and Assurance Standards Board, Australia