



# ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

August 2, 2017

Professor Arnold Schilder, Chairman  
International Auditing and Assurance Standards Board  
New York, NY

Submitted via email: [arnoldschilder@iaasb.org](mailto:arnoldschilder@iaasb.org)

Dear Professor Schilder,

**Re: Our response to the IAASB's Proposed International Standard on Auditing 540 (Revised) – *Auditing Accounting Estimates and Related Documentation* - a suggestion on how to move forward together**

We are pleased to have the opportunity to provide input to the IAASB on this important proposed standard (the ISA). These comments have been prepared by a task force of the International Actuarial Association (IAA), whose members are listed below. In this letter, we do not comment on the proposed standard so much as use the opportunity to suggest how auditors and actuaries can work to gather to improve the quality of audits, specifically as they relate to accounting estimates made by actuaries.

We appreciate that the ISA makes specific mention of estimates that involve actuarial expertise, namely insurance liabilities and pension liabilities. We note that these estimates have the attributes that are central to the audit considerations in the ISA, which are complexity, use of judgment and estimate uncertainty. The guidance in the ISA will be important in the auditing of these liabilities. We note with the advent of IFRS 17 *Insurance Contracts*, actuarial models will more than ever be the source of important items to be recognized in the financial statements as well as of key disclosures, such as the reconciliation of estimates at the end of to those at the beginning of the reporting period. There is no questioning the importance of the ISA to the audit of the work of actuaries.

The importance of the proposed standard prompted us to take the opportunity to raise some broader ideas that are related to the ISA. We believe that there may be an approach for actuaries and auditors working together to make the audit of actuarial estimates more efficient. Our letter is devoted to this thought, and as such we are not necessarily recommending changes to the ISA and do not offer any responses to the specific questions posed in the explanatory memorandum. We would welcome further discussion of the points we make in the rest of this letter.

We are impressed with how comprehensive the ISA is, and appreciate the thought given to the practical issues of scaling audit procedures to the significance and nature of the estimates and the attention given to auditing disclosures and the adequacy of the information, especially as it relates to the uncertainty in the items being estimated. We note in particular that the focus on method, data and assumptions in the ISA is consistent with the actuarial approach to making estimates of uncertain amounts.

However, the nature of complexity means that the volume of the guidance and the number of points that the auditor must consider is extensive. That raises questions for us of whether there is duplication in effort, and hence cost, and the possibility for confusion and misunderstanding of respective roles where there is apparent overlap.

The risk of duplicated effort arises because either the actuary preparing financial information for the entity subject to audit or the actuary engaged by the auditor may feel an undue burden to produce additional evidence to suit the purposes of auditors, when the actuary has already documented the same on similar issues in his or her work in conformance with actuarial standards. There is also the possibility that the auditor may feel compelled to create documentation when in fact existing evidence held by the actuary should suffice.

The risk of misunderstanding arises if actuaries and auditors do not have sufficient understanding of each other's roles and requirements. The actuary may feel compelled to develop a detailed knowledge of the ISA in order to satisfy the auditing standard. We would argue that it isn't efficient nor necessarily constructive for the actuary to develop a deep understanding of auditing. Just as concerning is the possibility that the actuary may not have a sufficient appreciation of the needs of the auditor and may not be able to cooperate in a way that makes the process efficient.

With those risks in mind, we present our suggestions on how actuaries and auditors can work together to make the application of the ISA practical and efficient.

An actuary involved in financial reporting for an insurance company or in preparing financial-reporting information related to pension and other employee benefit obligations is typically a member of an actuarial association that mandates conformity to both the applicable code of conduct and the applicable practice standards. We believe, therefore, that there is a risk of the issues identified in this letter arising if the auditing standard is applied without regard to the actuarial standards.

The actuary should document that his or her work conforms to actuarial practice standards. We are confident that the actuarial practice standards are sufficiently robust that the documentation that the actuary prepares in conformance with those standards can go a long way to providing the evidence that the auditor requires to meet the expectations of ISA 540.

To be sure, there may be supplemental information needed, and the auditor will have to critique the adequacy and content of the documentation that the actuary provides. Nonetheless, we see practical advantages to working together to remove inefficiency and duplication. The actuary who prepares information should be prepared to demonstrate that the work conforms to actuarial standards. An actuary who serves as an expert to the auditor should be prepared to determine that the work of the preparing actuary conforms to actuarial standards. In most cases conforming to actuarial standards and making the associated documentation available should provide much of what the auditor needs for their purposes.

There is no presumption that conforming to actuarial standards will necessarily satisfy all of the auditor's requirements. Rather, we would expect that all parties will be satisfied after a meeting of the minds of actuaries and auditors. This consensus can be reached broadly by a cooperative effort of the professions, and it can then be applied broadly. For example, in the United States, it may be possible for the AICPA, for the audit firms, and the Academy of Actuaries to work together to make such determination. With a broad consensus view, auditors can focus their attention on reviewing the evidence that the actuary has conformed to actuarial standards.

To support our view that actuarial standards are sufficiently robust and cover much of the same ground with data, assumptions and methods, we offer the guidance of the IAA's Actuarial Practice Standards as models. IAA Member Associations have a code of conduct that meets several criteria, including the stipulations that an actuary shall perform professional services only if the actuary is competent and appropriately experienced to do so and that an actuary is responsible for ensuring that the actuary's work conforms to applicable practice standards.

The professional standards promulgated by the IAA are referred to as International Standards of Actuarial Practice (ISAPs) and are models for the member associations and actuarial standard setters to adopt or modify as they deem appropriate. The IAA has as one of its strategic objectives the convergence of standards among its member associations.

The most relevant ISAPs for this discussion are:

ISAP 1 General Actuarial Practice which deals with aspects common to all actuarial services. It specifically also instructs the actuary to perform services only when the actuary is qualified, and provides guidance on matters such as reliance, quality of data, and communications.

ISAP 1A Governance of Models which deals with the critical aspect of governance of models typically used by actuaries in preparing actuarial estimates for financial-reporting purposes.

ISAP 3 Actuarial Practices on Relation to Employee Benefits which provides guidance on the actuary's responsibilities when preparing financial reporting information related to pension plans and other benefit programs under IAS 19.

IASP 4 Actuarial Practices in relation to insurance contracts under IFRS 17. This is currently a work in progress, and will provide guidance on the actuary's responsibility when preparing or reviewing financial-reporting information pursuant to IFRS 17.

For the sake of clarity, we emphasize that we are not recommending specific changes to ISA 540(R). Rather, we suggest a separate discussion to explore the best avenue to pursue opportunities for improvements in efficiency, lower costs and improved understanding. We are using your request for comments on ISA 540(R) as a forum to present our thoughts, because we are struck by the opportunity to improve the way we work together through the audit process.

We believe that the work that actuaries are already doing in conformance with actuarial standards provides valuable input into the audit process. Developing a joint understanding of the respective roles, documentation requirements and the work undertaken by the two professions will reduce the risk of inefficiency and misunderstanding. We believe that getting to this conclusion will promote more efficient and more effective audits.

We offer our suggestion in the spirit of the IAASB's stated objective of enhancing audit quality. We look forward to having further discussions with you. Please contact me, as the IAA representative to the IAASB CAG, with any questions or comments on our letter.

Your sincerely,

Thomas Terry  
IAA President

Task Force members:

Al Beer	- Vice Chair, Actuarial Standards Committee
Yasuyuki Fujii	- Chair, Pensions and Employee Benefits Committee
Tim Furlan	- Chair, Pension and Benefits Accounting Subcommittee
Alf Gohdes	- Chair, Actuarial Standards Committee
William Hines	- Chair, Insurance Accounting Committee
Tom Karp	- Vice Chair, Actuarial Standards Committee
David Martin	- Chair, Professionalism Committee
James Milholland	- Member, Insurance Accounting Committee
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