



EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 199.02

RELATIONSHIP WITH THE AUDITOR WHEN ACTUARIAL WORK IS USED IN AN AUDIT

April 2010

A. Background

The purpose of Practice Guideline 199.02 ("PG 199.02") is to provide guidance on how an Actuary participates in an Audit when his or her work is being used in it. It also provides guidance to Reviewing Actuaries who are employed or engaged by an Auditor to assist with an Audit or review.

Communication between Auditors and Actuaries will be more effective if both understand their authority and responsibilities.

The co-operation envisaged by this Practice Guideline is intended to avoid a situation in which the Auditor, through lack of information, feels obliged to qualify his or her Audit opinion insofar as such qualification relates to the work of an Actuary.

B. Why has this Practice Guideline been developed?

In October 2007, the Auditing and Assurance Standards Board (AUASB) issued Guidance Statement GS 005 *Using the Work of an Actuary* (Guidance Statement GS 005) which gives guidance to Auditors on using the work of an Actuary in relation to:

- (a) the Audit or review of a Financial Report for a financial year or half-year, in accordance with the Corporations Act;
- (b) the Audit or review of a Financial Report for any other purpose; and
- (c) the Audit or review of other financial information (other financial information may include the annual APRA return and regulatory financial statements for life insurers).

In conjunction with Guidance Statement GS 005, the Auditor considers the mandatory requirements and explanatory guidance on using the work of an expert as Audit evidence provided in Auditing Standard ASA 620 *Using the Work of an Expert* (Auditing Statement ASA 620). Copies of Guidance Statement GS 005 and Auditing Standard ASA 620 are available from the AUASB.



This Practice Guideline arose in response to the withdrawal in November 2007 of the Institute's Guidance Note 551 *Actuaries and Auditors: "The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in connection with the preparation and Audit of a Financial Report"* issued in July 1996 (GN 551).

C. Consultation

This Practice Guideline has been developed in consultation with each of the Institute's Practice Committees, as it applies to all Members regardless of practice area. In addition, an Exposure Draft of this Practice Guideline was issued for Member comment in June 2009. One submission was received and reflected in the final Practice Guideline.

D. Principal changes from GN 551

The main changes in PG 199.02 from GN 551 are set out below.

D.1 GN 551 addressed situation where Actuary uses the work of an Auditor

It is noted that, while the Practice Guideline provides guidance to Actuaries where their work is being used, GN 551 also addressed the situation of an Actuary using the work of an Auditor.

The Institute is currently considering whether guidance, additional to that provided in the Code of Professional Conduct, is necessary in relation to an Actuary's use of the work of others, including Auditors.

D.2 The Actuary's role in relation to the Auditor and Reviewing Actuary

The Practice Guideline indicates that it is considered good professional practice for an Actuary whose work is being used as Audit evidence to familiarise himself or herself with ASA 620 and GS 005 as well as the Auditor's general responsibilities and rights to access information.

The Practice Guideline indicates that if an Actuary is aware that the scope of an engagement includes work that is likely to be subject to Audit, but the Actuary is unwilling to provide assistance to the Auditor:

- (a) as the Actuary and/or the Actuary's Principal is required to do under the Corporations Act (sections 310 and 312); and/or
- (b) taking into account GS 005 and whether they have obtained the right from the Principal to communicate with the Auditor,

it is preferable that the Actuary not accept the engagement.



D.3 Procedures undertaken by the Actuary to verify data

An Auditor will generally request details of the procedures (if any) that an Actuary has undertaken to verify the appropriateness and reliability of the data. This assists the Auditor in determining whether these are sufficient for the purposes of the Auditor's report in accordance with the requirements of paragraph 11 of Guidance Statement GS 005.

It is considered good professional practice for an Actuary to communicate to an Auditor:

- (a) the procedures (if any) that the Actuary has performed; and
- (b) any matters Material to the accuracy or completeness of data of which the Actuary becomes aware (having, where appropriate, first obtained the consent of the Actuary's Principal).

D.4 Reviewing Actuaries

The Practice Guideline provides guidance to Reviewing Actuaries who are employed or engaged by an Auditor to assist with an Audit or review. "Reviewing Actuary" is a new term referring to an Actuary employed or engaged by an Auditor to assist with an Audit or review.

The Practice Guideline applies equally to Reviewing Actuaries that are employed by the same firm as the Auditor, or work for a separate firm but have been engaged by them.

The Reviewing Actuary should:

- (a) familiarise himself or herself with the principles of the auditing standards, in particular those dealing with documentation, the auditing of evidence and estimates, and the need to adapt their processes to their risk assessment;
- (b) limit requests for information and assistance to those considered reasonable taking into account:
 - (i) the context and purpose of the review;
 - (ii) Materiality; and
 - (iii) the Act; and
- (c) unless otherwise instructed by the Auditor, apply the same standards of materiality as the Auditor.

D.5 General updating

To reflect legislative changes since GN 551 was issued, changes were incorporated to reflect:



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- (a) the Code of Professional Conduct, Professional Standards and Practice Guidelines issued by the Institute; and
- (b) the Auditing Standards and Guidance Statement issued by the AUASB.

END OF EXPLANATORY MEMORANDUM