



PRACTICE GUIDELINE 199.02

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

April 2010

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1 INTRODUCTION

1.1 Application

1.1.1 This Practice Guideline applies to both:

- (a) Actuaries when their work is being used as Audit evidence; and
- (b) Reviewing Actuaries employed or engaged by an Auditor to assist with an Audit or review.

1.1.2 Nothing in this Practice Guideline is intended, of itself, to give rise to a duty of care at law being owed by an Actuary or Reviewing Actuary to an Auditor. Members are reminded that the Actuary may have a duty of care at law arising out of their engagement.

1.2 Classification

1.2.1 This Practice Guideline has been prepared in accordance with Council's Policy for Drafting and Developing Practice Guidelines, as varied from time to time. It must be applied in the context of the Institute's Code of Professional Conduct.

1.2.2 This Practice Guideline is not mandatory.

1.2.3 Nevertheless, if the Professional Services provided by a Member are covered to any extent by this Practice Guideline, a Member should consider explaining any significant departure from this Practice Guideline to the Principal, and document such explanation.

1.3 Background

1.3.1 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 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, for example, the annual APRA return and regulatory financial statements for life insurers).

1.3.2 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.

- 1.3.3 This Practice Guideline arose in response to the withdrawal 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 (Guidance Note 551).

1.4 Purpose

- 1.4.1 This Practice Guideline has been developed to provide guidance on how an Actuary participates in an Audit when his or her work is being used as Audit evidence. Members are reminded that, when an Actuary is participating in such an Audit, he or she is subject to the Code. For the avoidance of doubt, this Practice Guideline is not intended to provide guidance on the Actuary's work product itself, which may be subject to a Professional Standard or other guidance.
- 1.4.2 It also provides guidance to Reviewing Actuaries who are employed or engaged by an Auditor to assist with an Audit or review.
- 1.4.3 Communication between Auditors and Actuaries will be more effective if both understand their responsibilities and authority.
- 1.4.4 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.

1.5 Previous versions

- 1.5.1 This Practice Guideline replaces Guidance Note 551, which was withdrawn in November 2007.
- 1.5.2 Guidance Note 551 took the form of AUS 524 which was a joint policy statement prepared by both the Institute and the Auditing Standards Board of the Australian Accounting Research Foundation.
- 1.5.3 Guidance Note 551 replaced Guidance Note 251, which took the form of the appendix to Statement of Auditing Practice 22 and dealt with the Auditor's and Actuary's duties in relation to life insurance.
- 1.5.4 It is noted that, while this 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. Obligations on Actuaries in using the work of others are set out in the Code.

1.6 Legislation

The legislation relevant to this Practice Guideline is the Act.

2 COMMENCEMENT DATE

This Practice Guideline commences on 20 April 2010.

3 DEFINITIONS

'Accounting Bodies' means the Australian Society of Certified Practising Accountants, The Institute of Chartered Accountants in Australia and the National Institute of Accountants.

'Act' means the Corporations Act 2001 (Cth), as amended or replaced from time to time.

'Actuarial Advice' has the same meaning as set out in the Code.

'Actuarial Report' has the same meaning as set out in the Code.

'Actuary' has the same meaning as set out in the Code.

'APRA' means the Australian Prudential Regulation Authority.

'Audit' means an engagement in which a suitably qualified member of an Accounting Body, or Auditor-General or his/her delegate, expresses an opinion that a financial report is free from material misstatement, such as an engagement in accordance with Australian Auditing Standards. This includes a statutory audit which is an audit required by legislation or other regulation, and other audits conducted for the purposes of the Act.

'Auditor' means an individual or firm appointed to conduct an Audit of an Entity's Financial Report.

'Code' means the Code of Professional Conduct of the Institute.

'Entity' means a body corporate, partnership or a trust.

'Expert' means a person or firm possessing special skill, knowledge and experience in a particular field. It includes an accountant, another Actuary, and the Chief Financial Officer and other Officers of an Entity.



'Financial Report' comprises APRA returns and financial statements, notes, supplementary schedules and explanatory material intended to be read with the financial statements, but excludes a report or a summary prepared by an Actuary.

'Institute' means The Institute of Actuaries of Australia (ABN 69 000 423 656).

'Material' has the same meaning as set out in the Code (something that is important or essential in the opinion of the member). It is noted that in providing Actuarial Advice the Actuary may have applied a different standard of materiality to the Auditor. Therefore, what is Material for the Actuary in the context of his or her Actuarial Advice may be different to that for the Auditor and Reviewing Actuary.

'Member' has the same meaning as set out in the Code.

'Officer' has the same meaning as set out in the Act.

'Practice Guideline' is a document setting out generally accepted practices and techniques in a particular situation or area, that has been prepared in accordance with the Institute's *Policy for Drafting Practice Guidelines* and has been issued by the Institute.

'Principal' has the same meaning as set out in the Code.

'Professional Service' has the same meaning as set out in the Code.

'Professional Standard' has the same meaning as set out in the Code.

'Reviewing Actuary' means an Actuary employed or engaged by an Auditor to assist with an Audit or review.

'Statutory Role' is any role that is defined by law to be performed by an Actuary.

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

4.1 The Auditor's role in relation to the Actuary

4.1.1 The preparation and presentation of a Financial Report and other financial information of an Entity are the responsibility of those charged with governance. The representations contained in the Financial Report or other financial information may include amounts determined by the Actuary or may be based upon actuarial valuations.

4.1.2 The Auditor is responsible for forming and expressing an opinion on a Financial Report or other financial information. When a Financial Report or other financial



information includes amounts determined by, or based upon the work of, an Actuary, the Auditor considers using the work of the Actuary as Audit evidence.

4.1.3 The Accounting Bodies recognise that while the Auditor will not have the same expertise as the Actuary, they will need to obtain an understanding of the assumptions and methods used and to consider whether they are reasonable, based on the Auditor's knowledge of the business and the results of other procedures performed. Under Guidance Statement GS 005, the Auditor:

- (a) must assess whether the Actuary has performed sufficient procedures to determine if the data is reliable and appropriate for the purposes of the report (paragraph 11);
- (b) must evaluate the Actuary's professional competence and objectivity (paragraphs 16-21);
- (c) must ensure the Actuary's scope of work is adequate for the purposes of the Audit and provides sufficient appropriate Audit evidence (paragraphs 22 to 24);
- (d) must evaluate, *inter alia*, the appropriateness of the Actuary's work as Audit evidence (paragraphs 25 to 28); and
- (e) ordinarily communicates with the Actuary, informs the Actuary of the intended use of the Actuary's work and makes the Actuary aware of the Auditor's needs (paragraphs 15 and 30).

4.1.4 The Auditor also evaluates the results of the Actuary's work in the light of the Auditor's overall knowledge of the business and the results of other Audit procedures.

4.2 The Actuary's role in relation to the Auditor and Reviewing Actuary

4.2.1 It is considered good professional practice for an Actuary to familiarise himself or herself with:

- (a) the contents of Auditing Standard ASA 620 and Guidance Statement GS 005; and
- (b) in general, both the responsibilities of the Auditor and the Auditor's right to access documents (and to make reasonable requests for information and assistance) from the Officers of an Entity, under applicable legislation.

4.2.2 Where 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 as the Actuary and/or the Actuary's Principal is required to do under the Act and/or taking into account clauses 4.5.1 and 4.5.2, it is preferable that the Actuary not accept the engagement.



4.2.3 It is considered good professional practice for an Actuary whose work is being used as Audit evidence to provide any Reviewing Actuary engaged by an Auditor the same assistance they would provide the Auditor.

4.3 Procedures undertaken by the Actuary to verify data

4.3.1 The extent to which an Actuary has verified and assumed responsibility for the data on which the Actuarial Advice is based will generally depend on the scope of the work, the requirements of the Code and any applicable Professional Standards and legislation.

4.3.2 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.

4.3.3 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 to make such a communication).

4.3.4 In providing Actuarial Advice, the Actuary may have applied a different standard of Materiality to the Auditor. If the Actuary decides to omit communication of matters he or she considers Material to the Actuarial Advice but not Material to the Audit, it is considered good professional practice for the Actuary to discuss this with the Auditor.

4.4 Reviewing Actuary's role in relation to an Auditor

4.4.1 A Reviewing Actuary may be employed or engaged by an Auditor to assist with an Audit or review.

4.4.2 The responsibility of a Reviewing Actuary is to assist and advise the Auditor to make the judgments which the Auditor is required to make under Guidance Statement GS 005, as set out in clause 4.1.3.

4.4.3 It is considered good professional practice for a Reviewing Actuary to:

- (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.

4.5 Communication between the Actuary and the Auditor

- 4.5.1 Generally, it is expected that an Actuary will be willing to participate in an Audit and other procedures as described in paragraphs 14, 26 and 28 of Guidance Statement GS 005.
- 4.5.2 If the Actuary has not obtained the right to communicate with the Auditor from the Principal, then accepted practice is for the Actuary to consider any impact on the engagement and the Actuary's obligations under the Code.
- 4.5.3 It is considered good professional practice for an Actuary, where the Auditor intends to use the Actuary's work as Audit evidence, to:
 - (a) affirm that the Actuary can perform the work that the Auditor intends to so use;
 - (b) affirm that the Actuary has been appointed by the appropriate Principal to perform the work that the Auditor intends to so use;
 - (c) affirm that the work to be performed will be carried out in accordance with applicable Professional Standards;
 - (d) affirm that the Auditor will be using the work for the intended use;
 - (e) discuss any problems expected in meeting the needs of the Auditor on a timely basis;
 - (f) provide a copy of his or her report to the Auditor; and
 - (g) assist the Auditor in determining whether there is a basis for using the Actuary's work.

END OF PRACTICE GUIDELINE 199.02