

EXPLANATORY MEMORANDUM to PRACTICE GUIDELINE 199.02 (RELATIONSHIP WITH THE AUDITOR WHEN ACTUARIAL WORK IS USED IN AN AUDIT)

June 2018

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the new Practice Guideline 199.02 (Relationship with the Auditor when Actuarial Work is Used in an Audit) ("PG 199.02") which replaces the version issued in April 2010.

B. Background to review

In March 2015, the Auditing and Assurance Standards Board (AUASB) issued Guidance Statement GS 005 (Using the Work of a Management's Expert). It replaced the 2007 Guidance Statement GS 005 (Using the Work of an Actuary) and gives guidance to Auditors when using the work of a management's Expert in relation to:

- (a) the Audit of a Financial Report, in accordance with the Act;
- (b) the Audit 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).

C. Review process and consultation

Following the release of the new GS 005, the Accountants and Actuaries Liaison Committee considered the need for changes to PG 199.02, and the matter was referred to Practice Committees for review and drafting of amendments. The Exposure Draft has been approved by all relevant Practice Committees.

D. Key changes

The following are the key changes:

- ▶ The new GS 005 is less directive in setting out what an Auditor requires from a Member. The guidance in the previous version related to the Auditor communicating needs at the beginning of an engagement. Under the new GS 005, the Auditor assesses whether or not the method is appropriate for the Auditor's purposes (and then determining next steps if they are not), and relies on

ASA 500 Audit Evidence. The wording in paragraph 4.1.3 of PG 199.02 has been amended.

- ▶ The previous version of GS 005 required the Auditor to evaluate the procedures for data analysis performed by the Member. The updated version does not presume any particular level of analysis on data done by the management Expert. The wording in paragraph 4.1.3 (a) of PG 199.02 has been amended.
- ▶ There have been updates relating to the standards that GS 005 references. This has required updates to in PG 199.02. In particular, further commentary has been added at para 4.4.2 in relation to role of Reviewing Actuary (now Reviewing Member).

END OF EXPLANATORY MEMORANDUM