

Explanatory Memorandum to Practice Guideline PG 199.02 Relationship with the Auditor when Actuarial Work is Used in an Audit

July 2023

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the updates to the Practice Guideline PG 199.02 Relationship with the Auditor when Actuarial Work is used in an Audit.

PG 199.02 is to assist Members acting either as Management's Expert or as an Auditor's Expert (as defined under auditing standards) as part of the audit of an entity's financial report or other financial information.

2. Background

In March 2020, the Auditing and Assurance Standards Board (AUASB) issued Guidance Statement GS 005 *Evaluating the Appropriateness of a Management's Expert's Work* (Guidance Statement GS 005). It replaces Guidance Statement GS 005 *Using the Work of a Management's Expert* (March 2015) and gives guidance to Auditors when using the work of a Management's Expert as Audit evidence in relation to:

- (a) The circumstances under which a Management's Expert may be used and the nature of that work;
- (b) The Auditor's considerations in determining whether to use the work of a Management's Expert as Audit evidence in carrying out the responsibilities of the Auditor with respect to an Entity's financial report or other historical financial information; and
- (c) The Auditor's considerations in determining the information to be used as Audit evidence.

A Member may be acting as a Management's Expert (under Auditing Standard ASA 500 *Audit Evidence*) or as an Auditor's Expert (under Auditing Standard ASA 620 *Using the Work of an Auditor's Expert*).

The updated Practice Guideline PG199.02 reflects these changes to GS 005 and replaces the previous version issued in June 2018.

3. Summary of changes to Practice Guideline PG199.02

The key changes to PG 199.02 are:

- Inclusion of definitions of Management's Expert and Auditor's Expert which are consistent with their definitions in auditing standards. A Member may act as a Management's Expert or an Auditor's Expert in an audit.
- Additional guidance with respect to the Auditor's role in relation to the Member, including the addition of guidance for a Member working in the capacity as an Auditor's Expert.
- Alignment to the updated GS 005 guidance in relation to:
 - Procedures undertaken by the Member (acting as Management's Expert) to verify data, and
 - Communication between the Member (acting as Management's Expert) and the Auditor.

4. Consultation undertaken

This updated Practice Guideline was drafted by the Accountants and Actuaries Liaison Committee (AALC), which is an informal committee of accountants and actuaries practising in life insurance, general insurance, health insurance and superannuation. The AALC includes members from each of the four major auditing firms and major Australian insurers.

Feedback on the draft Practice Guideline has been provided by Institute Practice Committees: the Life Insurance Practice Committee, General Insurance Practice Committee, Health Insurance Practice Committee and Superannuation and Investments Practice Committee.

Given the limited nature of the changes, the AALC and the Practice Committees recommended and Council agreed that consultation with members via an Exposure Draft was not required.

5. Commencement Date

The commencement date of the updated PG 199.02 is 1 August 2023.

End of Explanatory Memorandum