



THE INSTITUTE OF ACTUARIES OF AUSTRALIA
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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”

APPLICATION

All Fellows and Accredited Members.

AUTHORITY

This Guidance Note takes the form of AUS524 which is a joint policy statement prepared by The Institute of Actuaries of Australia and the Auditing Standards Board of the Australian Accounting Research Foundation.

The following pages are a copy of AUS524 as published by the AARF and also form the text of Guidance Note 551. Where relevant actuaries should take AUS to mean Guidance Note and interpret the text appropriately.

FIRST ISSUED

April 1996, effective from 1 July 1996.

The Guidance Note replaces 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.

AUDITING STANDARD

AUS 524 "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

JOINT POLICY STATEMENT

(This Standard has been prepared jointly by the Auditing Standards Board and the Institute of Actuaries of Australia.)

Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance as to:
- (a) the circumstances under which the auditor and actuary would use the work of the other in carrying out their respective responsibilities with respect to an entity's financial report;
 - (b) how the auditor and actuary would interact in carrying out their respective responsibilities; and
 - (c) how the auditor's and actuary's responsibilities may be disclosed to users of a financial report

This AUS applies to the audit of a financial report of, for example, a defined benefit superannuation plan, a general insurance entity or a life insurance entity. In these examples, where the auditor and the actuary use the work of the other to meet their respective responsibilities, the requirements of this AUS would need to be considered.

- .02 *The reporting professional should determine that there is a reasonable basis for the use of the work of the specialist professional.*
- .03 'Accounting Bodies' means the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia.
- .04 'Actuary' means an individual who is a Fellow of the Institute of Actuaries of Australia or an Accredited Member of that Institute.
- .05 'Auditor' means an individual or firm appointed to conduct an audit of an entity's financial report.

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- .06 "Financial report" comprises 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 the actuary.
- .07 'Reporting professional' means the auditor or actuary, as the case may be, who is using the work of the other.
- .08 'Specialist professional' means the auditor or actuary, as the case may be, whose work is being used by the other.

Roles and Responsibilities of the Auditor and the Actuary when Expressing Opinions In Respect of a Financial Report

- .09 The preparation and presentation of a financial report of an entity is the responsibility of the governing body. The representations contained in the financial report may include amounts determined by the actuary or based upon actuarial valuations. Circumstances may arise where the actuary may have a responsibility to express an opinion about the appropriateness of such amounts. In such circumstances, the actuary would consider whether to use the work of the auditor with respect to the accuracy and completeness of data used to determine the amounts. In this situation, the actuary acts as the reporting professional and the auditor acts as the specialist professional.
- .10 The auditor is responsible for forming and expressing an opinion on a financial report. When a financial report includes amounts determined by, or based upon the work of the actuary, the auditor would consider using the work of the actuary as audit evidence. In this situation, the auditor acts as the reporting professional and the actuary acts as the specialist professional.
- .11 AUS 606 'Using the Work of an Expert', which establishes standards and provides guidance on using the work of an expert as audit evidence, needs to be considered by the auditor in conjunction with this AUS.

Basis for Using the Specialist Professional's Work

Communication Between the Two Professionals

- .12 ***When determining the basis for using the specialist professional's work, the reporting Professional should communicate with the specialist professional to establish an understanding of the work to be performed by each professional and of the nature and extent of reliance to be placed by each professional on the work of the other.***

In some exceptional circumstances, for example in relation to defined benefit superannuation plans, this communication requirement may be met by reading a report provided to the reporting professional by the specialist professional. However, the reporting professional needs to be satisfied that the communication reflects the requirements in AUS 526.15 and AUS 526.16.

- .13 ***The reporting professional and specialist professional should disclose to each other, in confidence:***
- a) ***information requested as being relevant to the work of the professional making the request, and***
 - b) ***information the disclosure of which, in the opinion of the professional making the disclosure, is necessary for a proper understanding by the other professional of the work undertaken by the professional making the disclosure.***
- .14 Before accepting an engagement to which this Standard applies, each professional would obtain from management the right to communicate with the other professional and to disclose information in accordance with this Standard. Such communication would be established between the auditor and the actuary during the planning stages of their respective engagements, and further communication would take place as necessary throughout the engagement. The engagement would not be accepted if the right to communicate was not obtained from management.
- .15 The reporting professional would ordinarily:
- (a) inform the specialist professional of the intended use of the specialist professional's work in accordance with this AUS;
 - (b) inquire as to whether the specialist professional has been appointed by the appropriate body to perform the work that the reporting professional intends to use;
 - (c) inquire as to whether the specialist professional will carry out the work required in accordance with the applicable professional standards; and
 - (d) make the specialist professional aware of the reporting professional's needs. This would include a discussion of:
 - (i) materiality, to determine that the specialist professional will be using a materiality level that is

appropriate in relation to the reporting professional's materiality level;

- (ii) subsequent events, to determine that the specialist professional understands how subsequent events are to be treated and that the specialist professional will consider the effect of matters which come to the specialist professional's attention up to the date of the specialist professional's report;
- (iii) verification of data, so that reasonable assurance will be obtained with respect to the accuracy and completeness of the required data;
- (iv) the timing of the work to be carried out by the specialist professional and the date of the specialist professional's report; and
- (v) any questions relating to the specialist professional's work.

.16 The specialist professional would ordinarily:

- (a) affirm that the specialist professional can perform the work that the reporting professional intends to use;
- (b) affirm that the specialist professional has been appointed by the appropriate body to perform the work that the reporting professional intends to use.,
- (c) affirm that the work performed by the specialist professional will be carried out in accordance with the applicable professional standards;
- (d) affirm that the reporting professional will be using the work of the specialist professional;
- (e) discuss any problems expected in meeting the needs of the reporting professional on a timely basis;
- (f) provide a copy of their report relevant to the reporting professional; and
- (g) assist the reporting professional in determining whether there is a basis for using the specialist professional's work.

The Specialist Professional's Qualifications, Competence, Integrity and Objectivity

- .17 ***When planning to use the work of the specialist Professional the reporting Professional should assess the Professional competence of the specialist professional.***
- 18 In the case of the auditor, prima facie evidence of professional qualification is membership of one of the Accounting Bodies. In the case of the actuary, prima facie evidence of professional qualification is Fellowship or Accredited Membership of The Institute of Actuaries of Australia.
- .19 ***The reporting professional should assess the integrity and objectivity of the specialist professional.***
- .20 AUS 502 'Audit Evidence' indicates that generally evidence from external sources is more reliable than that generated internally. The existence of a relationship between the specialist professional and the entity being audited may impair the specialist professional's ability to be objective. AUS 606 'Using the Work of an Expert' indicates that where an expert is employed or related to the entity, the auditor would consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of an expert, that would impact on the objectivity the expert. If the auditor is concerned regarding the competence or objectivity of the expert, the auditor needs to discuss any reservations with management and consider whether sufficient appropriate audit evidence can be obtained concerning the work of the expert. The auditor may need to undertake additional procedures or seek audit evidence from another expert.
- .21 Mitigating factors which enhance, the ability of the actuary, when the actuary is an employee of the entity, to be objective. and therefore may compensate for the lack of independence, include:
- (a) adhering to the professional standards issued by The Institute of Actuaries of Australia and/or the Life Insurance Actuarial Standards Board where appropriate;
 - (b) the requirement to provide an opinion and a detailed report on the appropriateness of the actuarial liabilities to regulatory authorities, and to provide an opinion on the appropriateness of the actuarial liabilities to, for example, policy holders and/or members;
 - (c) formal appointment of the actuary by the governing body and access to the governing body by the actuary; and

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- (d) legislation requiring that regulatory authorities are informed of the actuary's appointment by the governing body and of any change in appointment.
- .22 The decision as to whether to perform more extensive procedures or engage an independent specialist professional to review some or all of the work of the specialist professional is a matter of professional judgement. In making this judgements the reporting professional would consider:
- (a) adverse economic and competitive conditions;
 - (b) significant concern by management about operating results; and
 - (c) evidence of undue management pressure on the specialist professional.
- .23 The auditor may also consider performing more extensive procedures or engaging an independent specialist to review some or all of the work of the specialist professional when inherent risk has been assessed as high for a particular audit engagement.

The Specialist Professional's Standards

- .24 When the specialist professional is the auditor, the relevant professional standards are those as prepared by the Auditing Standards Board of the Australian Accounting Research Foundation and issued by the Australian Accounting Research Foundation on behalf of the Accounting Bodies. The Institute of Actuaries of Australia accepts those standards for the purpose of this AUS.
- .25 When the specialist professional is the actuary, the relevant professional standards are those issued by The Institute of Actuaries of Australia and/or the Life Insurance Actuarial Standards Board. The Accounting Bodies accept those standards for the purpose of this AUS.
- .26 In deciding whether the specialist professional's work can be used, the reporting professional would base the decision not on how the reporting professional thinks the work ought to be performed, but whether it has been performed in accordance with the above-mentioned standards applicable to the specialist professional.

Appropriateness of the Specialist Professional's Work

- .27 *The reporting professional should assess the Appropriateness of the specialist professional's work.*
- .28 The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the specialist professional. Although not having the same expertise as the specialist professional, the reporting professional will need to obtain an understanding of the assumptions and methods used and to consider whether they are reasonable, based on the reporting professional's knowledge of the business and the results of other procedures performed. In situations where the amounts to be included in the financial report are based on the work of the specialist professional, but have been finalised with further input from the governing body, the reporting professional would need to determine the reasonableness of that input.

The Specialist Professional's Findings and Opinions

- .29 *The specialist professional's report forwarded to the reporting professional in accordance with AUS 526.16(f) should:*
- (a) *include a title*
 - (b) *include the addressee;*
 - (c) *identify its nature and purpose;*
 - (d) *identify the financial report or financial information to which it relates;*
 - (e) *include a section describing the scope of the work performed including a statement of any specific terms of reference;*
 - (f) *identify the specialist professional's relationship to the entity to which the financial report or financial information pertain;*
 - (g) *set forth findings and opinions, including a representation that the work was performed in accordance with the relevant professional standards and this AUS;*
 - (h) *include the specialist professional's signature;*
 - (i) *include the specialist professional's address; and*

(j) *include the date of the report.*

- .30 During the course of the engagement, the reporting professional would use the report of the specialist professional. When the reporting professional has a question about an aspect of the specialist professional's work, the question needs to be raised with the specialist professional who would provide an explanation about that aspect of the work performed. This does not, however, limit the right of the reporting professional to any information or explanation that may be required in the performance of the reporting professional's duties in accordance with the reporting professional's professional standards.

Disclosure of Respective Roles to the Users of a Financial Report

- .31 The significance of the amounts that the actuary determines for inclusion in the financial report of, for example, a defined benefit superannuation plan or a life insurance entity, and the unique relationship of the auditor and actuary in such examples, make it desirable that a report by each be included with the financial report and that there be disclosure of their respective roles. That disclosure would be provided by management either as part of its report accompanying the financial report or in a note to the financial report.

Operative Date

- .32 This AUS is operative in relation to the first financial reporting period commenced on or after 1 July, 1996 and later reporting periods, although earlier application is encouraged. This AUS supersedes Statement of Auditing Practice AUP 22 "Using the Work of an Expert" Appendix "An Auditor's Relationship with an Actuary concerning Actuarial Valuation of Policy Liabilities of a Life Insurance Company" as issued in June 1985.

Compatibility with International Standards on Auditing

- .33 There is no corresponding International Standard on Auditing.

END OF GUIDANCE NOTE 551