
PRACTICE GUIDELINE 199.02
RELATIONSHIP WITH THE AUDITOR WHEN ACTUARIAL WORK IS USED IN AN AUDIT
July 2023

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1. Introduction

1.1. Application

1.1.1. This Practice Guideline applies both to:

- a. Members (acting as Management's Expert) when their work is being used as Audit evidence; and
- b. Members who are an Auditor's Expert and who are employed or engaged by an Auditor to assist with an Audit or review.

1.2. About this Practice Guideline

1.2.1. This Practice Guideline:

- a. has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents; and
- b. is to be applied in the context of the Code.

1.2.2. This Practice Guideline is not mandatory. Even so, if this Practice Guideline covers the Services a Member provides, then the Member should consider explaining any significant departure from this Practice Guideline to the Principal, and record that explanation.

1.3. Other relevant documents

1.3.1. This Practice Guideline must be applied in the context of the relevant legislation, regulation and accounting and auditing standards. If there is a conflict in wording, then the legislation, regulation and accounting and auditing standards take precedence over this Practice Guideline.

1.3.2. In this context, legislation, regulation and accounting and auditing standards include laws, regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law. Also included are relevant modifications or substitutions of these. Similarly, a reference to a Professional Standard or Practice Guideline includes any modification or replacement of that Professional Standard or Practice Guideline.

1.3.3. Apart from the Code or a Professional Standard, from legislation or from regulatory standards, no other document, advice or consultation can be taken to modify or interpret the requirements of this Practice Guideline.

- 1.3.4. This Practice Guideline does not constitute legal advice. Any interpretation or commentary within this Practice Guideline regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

1.4. Background

- 1.4.1. 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.

- 1.4.2. In conjunction with Guidance Statement GS 005, the Auditor considers the mandatory requirements and explanatory guidance on using the work of a Management's Expert as Audit evidence provided in Auditing Standard ASA 500 *Audit Evidence* (ASA 500). ASA 620 *Using the Work of an Auditor's Expert* (ASA 620) requires the Auditor to determine whether to use the work of an Auditor's Expert, where such expertise is necessary to obtain sufficient appropriate Audit evidence. Copies of Guidance Statement GS 005 and Auditing Standard ASA 500 and 620 are available from the AUASB's website (auasb.gov.au).

- 1.4.3. This Practice Guideline is an update to the version of PG 199.02 issued in June 2018 and reflects the above changes to GS 005.

1.5. Purpose

- 1.5.1. This Practice Guideline has been developed to provide guidance to:
- a. Members acting as Management's Expert on how to participate in an Audit when the Member's work is being used as Audit evidence;
 - b. Members who are an Auditor's Expert and who are employed or engaged by an Auditor to assist with an Audit or review.

- 1.5.2. Communication between Auditors and Members will be more effective if both understand their responsibilities and authority.
- 1.5.3. 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 the Audit opinion insofar as such qualification relates to the work of a Member.

2. Commencement date

This Practice Guideline commences on 1 July 2023.

3. Definitions and interpretation

3.1. Terms

‘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.

‘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 their delegate expresses an opinion that a Financial Report is free of 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 Corporations Act.

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

‘Auditor’s Expert’ means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the Auditor to assist the Auditor in obtaining sufficient appropriate Audit evidence per ASA 620. An Auditor’s Expert may be either an Auditor’s internal expert (who is a partner or staff,

including temporary staff, of the Auditor’s firm or a network firm), or an Auditor’s external expert. A Member may perform the role of an Auditor’s Expert.

‘Code’ means the Code of Conduct of the Institute.

‘Entity’ means a body corporate, partnership or a trust.

‘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 a Member. For the purposes of this Practice Guideline, it also includes regulatory returns prepared for APRA and any other regulator where these returns are subject to Audit.

‘Management’s Expert’ means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the Entity to assist the Entity in preparing the Financial Report or other historical financial information. This includes a Member engaged to determine amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans).

‘Material’ has the same meaning as set out in the Glossary of Defined Terms Used in Practice Guidelines (“Relevant to the circumstances and either important or essential in the opinion of the Member”). It is noted that in providing actuarial advice the Member may have applied a different standard of materiality to the Auditor. Therefore, what is Material for the Member in the context of the Member’s actuarial advice may be different to that for the Auditor and Auditor’s Expert.

‘Officer’ has the same meaning as set out in the Act.

Other capitalised terms used in this Practice Guideline have the same meaning as set out in the Code.

4. Relationship with the Auditor when actuarial work is used in an Audit

4.1. The Auditor’s role in relation to the Member

- 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 Member 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, a Member, the Auditor considers using the work of the Member as Audit evidence.

- 4.1.3. The Accounting Bodies recognise that while the Auditor will not have the same expertise as the Member, 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 consider the appropriateness of information to be used as Audit evidence by the Member acting as Management's Expert and consider whether to obtain more persuasive evidence (for example as the significance of the Management Expert's work on the financial statements increases) (paragraphs 22-23)
 - b. must evaluate the Member's professional competence, capability and objectivity (paragraphs 24-35);
 - c. must obtain an understanding of the work of the Member acting as Management's Expert (paragraphs 36-39) and evaluate whether the approach and methodology is an appropriate basis for determination of the matter included in the Financial Report or other historical financial information (paragraph 39).
 - d. must evaluate the appropriateness of the work of the Member acting as Management's Expert (paragraphs 40-59), including:
 - evaluating whether the work of the Member acting as Management's Expert provides sufficient and appropriate Audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the Financial Report are in conformity with the relevant financial reporting framework (paragraph 43);
 - evaluating the methods and assumptions employed by the Member acting as Management's Expert and whether they are appropriate to support a conclusion that in all material respects the corresponding account balances, classes of transactions or disclosures in the Financial Report are in conformity with the applicable financial reporting framework (paragraphs 45-50);
 - consideration of whether the source data used by the Member acting as Management's Expert is sufficiently reliable for their purposes including procedures relating to establishing the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed (paragraphs 51-53);
 - consideration of the findings and conclusions of the Member acting as Management's Expert through enquiries of the Management's Expert, corroborative procedures or engaging an Auditor's Expert to review some or all of the work of the Management's Expert (paragraphs 54-55); and
 - evaluating the work of the Member acting as Management's Expert and concluding as to whether it is appropriate for the Auditor's purposes (paragraphs 56-59).

- e. must comply with the documentation requirements of Auditing Standard ASA 230 *Audit Documentation*. The Auditor may include in their documentation relevant extracts from the Management Expert's findings, including the conclusions reached (paragraphs 60-62).

4.1.4. Paragraph A29 of ASA 620 specifies documentation requirements for a Member acting as an Auditor's Expert. In particular:

- a. Agreement on the respective roles and responsibilities of the Auditor and the Auditor's Expert may also include agreement about access to, and retention of, each other's working papers;
- b. When the Auditor's Expert is a member of the audit engagement team, that expert's working papers form part of the audit documentation; and
- c. Subject to any agreement to the contrary, external Auditor's Experts' working papers are their own and do not form part of the audit documentation.

4.2. The Member's role in relation to the Auditor and Auditor's Expert

4.2.1. Whether acting as a Management's Expert or an Auditor's Expert, it is considered good professional practice for a Member to be familiar with:

- a. the contents of Auditing Standard ASA 500 and 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 a company, under applicable legislation.

4.2.2. A Member may be acting as a Management's Expert (under ASA 500) or as an Auditor's Expert (under ASA 620). While there is no requirement for the Auditor to use an Auditor's Expert to evaluate the work performed by Management's Expert, paragraphs 10-13 of GS 005 outline considerations for the Auditor in using the work of an Auditor's Expert.

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

4.3. Procedures undertaken by the Member (acting as Management's Expert) to verify data

4.3.1. The extent to which a Member has verified and assumed responsibility for the data on which the actuarial advice is based will generally depend on the scope of the work and the requirements of the Code and any applicable Professional Standards and legislation.

4.3.2. Generally an Auditor will request details of the procedures (if any) that a Member 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 51 of Guidance Statement GS 005.

4.3.3. It is considered good professional practice for a Member to communicate to an Auditor:

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

In providing actuarial advice, the Member may have applied a different standard of materiality to the Auditor. If the Member decides to omit communication of matters the Member considers Material to the actuarial advice but not Material to the Audit, it is considered good professional practice for the Member to discuss this with the Auditor.

4.4. Auditor's Expert's role in relation to an Auditor

4.4.1. A Member acting as an Auditor's Expert may be employed or engaged by an Auditor to assist with an Audit or review.

4.4.2. It is considered good professional practice for a Member acting as an Auditor's Expert to:

- a. be familiar 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 the Auditor's risk assessment; and
- b. unless otherwise instructed by the Auditor, apply the same standards of materiality as the Auditor.

4.5. Communication between the Member (acting as Management's Expert) and the Auditor

4.5.1. Generally, it is expected that a Member will be willing to participate in an Audit and other procedures as described in paragraphs 24, 46, 49 and 52 of Guidance Statement GS 005.

4.5.2. If the Member has not obtained the right to communicate with the Auditor from the Principal, then acceptable practice is for the Member to consider any impact on the engagement and the Member's obligations under the Code.

4.5.3. It is considered good professional practice for a Member to:

- a. affirm that the Member can perform the work that the Auditor intends to use;
- b. affirm that the Member has been appointed by the appropriate Principal to perform the work that the Auditor intends to 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;

- e. discuss any problems expected in meeting the needs of the Auditor on a timely basis;
- f. provide a copy of the Member's report to the Auditor; and
- g. assist the Auditor in determining whether there is a basis for using the Member's work.

END OF PRACTICE GUIDELINE 199.02