

PRACTICE GUIDELINE 199.02

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

June 2018

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1. INTRODUCTION

1.1. Application

1.1.1 This Practice Guideline applies both to:

- (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.

1.2. Classification

- 1.2.1. This Practice Guideline has been prepared in accordance with Council's Policy for Developing Documents to Guide and Regulate Professional Practice, as varied from time to time. It must be applied in the context of the Institute's Code of 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 March 2015, the Auditing and Assurance Standards Board (AUASB) issued Guidance Statement GS 005 *Using the Work of a Management's Expert* (Guidance Statement GS 005). It replaces 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).
- 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 500 *Audit Evidence* (Auditing Standard ASA 500). ASA 620 *Using the Work of an Auditor's Expert* (Auditing Standard 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. In this Practice Guideline, a Member performing an Auditor's expert role (per Auditing Standard ASA 620) is referred to as a Reviewing Member. Copies of Guidance Statement GS 005 and Auditing Standard ASA 500 and 620 are available from the AUASB.
- 1.3.3. This Practice Guideline is an updated version of PG 199.02 issued in April 2010.

1.4. Purpose

- 1.4.1. This Practice Guideline has been developed to provide guidance on how a Member participates in an Audit when his or her work is being used as Audit evidence.
- 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 a Member.

1.5. Legislation

There is no specific legislation relevant to this Practice Guideline.

2. COMMENCEMENT DATE

This Practice Guideline commences on 30 June 2018.

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.

'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 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.

'Code' means the Code of 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 Member, 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 a Member.

'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 Member may have applied a different standard of materiality to the Auditor. Therefore, what is Material for the Member in the context of his or her actuarial advice may be different to that for the Auditor and Reviewing Member.

'Member' means a Fellow, Accredited, Associate or Affiliate (including student) Member of the Institute.

'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.

'Reviewing Member' means a Member employed or engaged by an Auditor to assist with an Audit or review. This includes any Member performing an auditor's expert role per Auditing Standard ASA 620.

'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 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, an 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 assess whether the source data is sufficiently relevant and reliable for their purposes (paragraph 27-28)
- (b) must evaluate the Member's professional competence and objectivity (paragraphs 14-18);
- (c) must assess 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 22), is appropriate for the auditor's purposes (paragraph 29) and obtains appropriate audit evidence (paragraph 35);
- (d) must evaluate, *inter alia*, the appropriateness of the Member's work as Audit evidence (paragraphs 25 to 28); and
- (e) as early as practicable during the engagement, communicates with the Member and considers whether the Member's approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information (paragraph 22). The auditor also generally obtains agreement for the Member to discuss findings with them (and consent to use the Member's findings) at the planning phase of the auditor's engagement. When obtaining an understanding of the Member's work considers whether the Member has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement) (paragraph 20).

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

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

4.2.1. It is considered good professional practice for a Member to familiarise himself or herself 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. Where a Member is aware that the scope of an engagement includes work that is likely to be subject to Audit, but the Member is unwilling to provide assistance to the Auditor as the Member and/or the Member's Principal is required to do under the Act, it is preferable that the Member not accept the engagement.

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

4.3. Procedures undertaken by the Member 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. An Auditor will generally 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 11 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 he or she 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. Reviewing Member's role in relation to an Auditor

4.4.1. A Reviewing Member may be employed or engaged by an Auditor to assist with an Audit or review. The Reviewing Member limits requests for information and assistance to those considered reasonable under the Act.

4.4.2. Accounting Standard ASA 620 requires that the auditor evaluate the adequacy of the Reviewing Member's work which may include:

- (a) evaluating the underlying assumptions, methods and models used by management and/or developing their own calculation / estimated value for comparison with management's estimate (paragraph A35); and
- (b) testing source data (paragraph A39).

4.4.3. It is considered good professional practice for a Reviewing Member 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; and
- (b) unless otherwise instructed by the Auditor, apply the same standards of materiality as the Auditor.

4.5. Communication between the Member 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 14, 26 and 28 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 his or her 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