

GS 005
(October 2007)

Guidance Statement GS 005 *Using the Work of an Actuary*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Alternatively, printed copies of this Guidance Statement are available by contacting:

Auditing and Assurance Standards Board Phone: (03) 8080 7400
Level 7 Fax: (03) 8080 7450
600 Bourke Street E-mail: enquiries@auasb.gov.au
Melbourne Victoria 3000
AUSTRALIA

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Using the Work of an Actuary* as set out in paragraphs 1 to 32, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create mandatory requirements.

Dated 31 October 2007

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 005

Using the Work of an Actuary

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to the auditor when using the work of an actuary as audit evidence in relation to:
- (a) the audit or review of a financial report for a financial year or a half-year, in accordance with the *Corporations Act 2001*;
 - (b) the audit or review of a financial report for any other purpose; and
 - (c) the audit or review of other financial information¹.

Issuance Date

- 2 This Guidance Statement is issued on 31 October 2007 by the AUASB and supersedes 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* issued in July 2002.

Introduction

- 3 This Guidance Statement has been developed to provide guidance on:
- (a) the circumstances under which the auditor uses the work of the actuary in carrying out the responsibilities of the auditor with respect to an entity's financial report or other financial information;
 - (b) how the auditor assesses the competency and objectivity of the actuary and determines the scope of the actuary's work; and
 - (c) how the auditor evaluates the work of an actuary and any impact of this work on the responsibilities of the auditor with

¹ Other financial information may include the annual Australian Prudential Regulation Authority (APRA) return and Regulatory financial statements for life insurers (PR 35).

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respect to an entity's financial report or other financial information.

- 4 This guidance applies equally to the use of the work of actuaries whether they are internal or external to an entity and an actuary fulfilling the role of an External Peer Reviewer ("EPR").
- 5 The auditor ordinarily considers the general principles of materiality and audit risk² in determining the application of this Guidance Statement in gathering sufficient and appropriate audit evidence.
- 6 *ASA 620 Using the Work of an Expert*, which establishes mandatory requirements and provides explanatory guidance on using the work of an expert as audit evidence, needs to be considered by the auditor in conjunction with this Guidance Statement.
- 7 Although the auditor may use the work of an actuary as audit evidence, under *ASA 700 The Auditor's Report on a General Purpose Financial Report* the auditor retains full responsibility for the audit opinion on the financial report or other financial information.

Roles and Responsibilities of the Auditor when Expressing Opinions in Respect of a Financial Report or Other Financial Information

- 8 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 actuary or may be based upon actuarial valuations.
- 9 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, the actuary the auditor considers using the work of the actuary as audit evidence.
- 10 In preparing reports and analyses, ordinarily the actuary relies on data provided by the entity, however an actuary has a professional obligation to take reasonable steps to verify the appropriateness of the data provided (i.e. its consistency, completeness and accuracy). An actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional*

² Procedures involving Materiality and Audit Risk relevant to an audit are contained in Auditing Standard *ASA 320 Materiality and Audit Adjustments*, and may be helpful in determining procedures in relation to the use of the work of an actuary.

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*Standards*³ and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

- 11 An auditor in using the work of an actuary assesses whether the actuary has performed sufficient procedures to determine if the data is reliable and appropriate for the purposes of the report. In assessing this work, the auditor considers the steps taken by the actuary in relation to the appropriateness of data used. If, as part of the audit procedures, the auditor becomes aware of matters material to the accuracy or completeness of data, ordinarily the auditor (having obtained client permission, where appropriate) communicates those findings to the actuary.

Determining the Need to Use the Work of an Actuary

- 12 In obtaining an understanding of the entity and performing further procedures in response to assessed risks, the auditor may need to obtain audit evidence in the form of reports, opinions, valuations and statements by an actuary.
- 13 When determining the need to use the work of an actuary, ordinarily the auditor considers:
- (a) the engagement team's knowledge and previous experience of the matter being considered;
 - (b) the risk of material misstatement based on the nature, complexity and materiality of the matter being considered; and
 - (c) the quantity and quality of other audit evidence expected to be obtained.

Communication between the Auditor and the Actuary

- 14 The auditor communicates any information that may be relevant to the actuary's work. The level of communication may differ in detail depending on whether the actuary is internal or external to the entity and this is a matter for the auditor's professional judgement. Such communication is established during the planning stage and further communication would take place as necessary throughout the engagement. If the right to communicate with the actuary was not

³ "Actuarial Professional Standards" means those standards issued by The Institute of Actuaries of Australia and/or the APRA Prudential Standards and/or equivalent International professional standards.

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obtained from management the auditor would need to consider any impact on the engagement.

15 Ordinarily, the auditor:

- Informs the actuary of the intended use of the actuary's work including the possible communication to third parties of the actuary's identity and extent of involvement in accordance with this Guidance Statement.
- Makes the actuary aware of the auditor's needs. This includes a discussion of:
 - ◆ materiality, to establish that the actuary considers using a materiality level that is appropriate in the circumstances;
 - ◆ subsequent events, to establish that the actuary understands how subsequent events are to be treated and that the actuary will consider the effect of matters which come to the actuary's attention up to the date of the actuary's report;
 - ◆ verification of data, so that reasonable assurance will be obtained with respect to the accuracy, completeness and consistency of the required data;
 - ◆ the timing of the work to be carried out by the actuary and the date of the actuary's report; and
 - ◆ any questions relating to the actuary's work.

Competence and Objectivity of an Actuary

16 When planning to use the work of the actuary, the auditor evaluates the professional competence and objectivity of the actuary.

17 The auditor ordinarily considers the actuary's:

- (a) professional qualification, for example a Fellowship or Accredited Membership of The Institute of Actuaries of Australia and/or other recognised equivalent qualifications; and

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- (b) experience and reputation in the field of expertise⁴.
- 18 ASA 500 *Audit Evidence* indicates that evidence from external sources is generally more reliable than that generated internally. The existence of a relationship between the actuary and the entity being audited may impair the actuary's ability to be objective. ASA 620 indicates that where an expert is employed or related to the entity, the auditor needs to 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 of the expert. If the auditor is concerned regarding the competence or objectivity of the actuary, the auditor discusses any reservations with management and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the actuary. The auditor may undertake additional procedures or seek audit evidence from another expert.
- 19 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:
- Adherence to the professional standards issued by The Institute of Actuaries of Australia and/or the APRA Prudential Standards and/or equivalent International professional standards where appropriate.
 - 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.
 - Formal appointment of the actuary by those charged with governance and access to those charged with governance by the actuary.
 - Legislation requiring that regulatory authorities are informed of the actuary's appointment and any change to the appointment by those charged with governance.
 - Consideration of the results of any EPR or similar review.

⁴ The auditor may consider the *Fit and Proper Requirements* that need to be met in order for the Actuary to be appointed, to an entity regulated by the APRA Prudential Standards.

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Ordinarily, the basis on which the actuary is remunerated and or incentives offered as part of that remuneration are considered also by the auditor when assessing the actuary's objectivity.

Consideration of the above may be relevant also in evaluating the objectivity of an actuary external to the entity.

- 20 The decision as to whether to perform more extensive procedures or engage an independent actuary to review some or all of the work of the actuary is a matter of professional judgement. In making this judgement, the auditor considers:
- (a) economic and competitive conditions;
 - (b) significant concern by management about operating results; and
 - (c) evidence of undue management pressure on the actuary.
- 21 The auditor may consider performing more extensive procedures or engaging an independent actuary to review some or all of the work of the actuary when inherent audit risk has been assessed as high for a particular audit engagement.

Scope of the Actuary's Work

- 22 The auditor considers the scope of the actuary's work to ensure it is adequate for the purposes of the audit and provides sufficient appropriate audit evidence.
- 23 In assessing the appropriateness and adequacy of the actuary's terms of reference, consideration is given to the scope disclosed in the actuary's report.
- 24 The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the actuary. Although not having the same expertise as the actuary, the auditor 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. In situations where the amounts to be included in the financial report or other financial information are based on the work of the actuary, but have been finalised with further input from the those charged with governance, the auditor determines the reasonableness of that input.

Evaluating the Work of an Actuary

- 25 In accordance with ASA 620, the auditor evaluates the appropriateness of the actuary's work as audit evidence and whether the substance of the actuary's findings is properly reflected in the financial report or other financial information, and supports the assertions with, consideration of:
- (a) source data used;
 - (b) assumptions and methods used and their consistency with prior periods; and
 - (c) results of the actuary's work in the light of the auditor's overall knowledge of the business and the results of other audit procedures.
- 26 ASA 620 requires that if the results of the actuary's work do not provide sufficient appropriate audit evidence, or if the results are not consistent with other audit evidence, the auditor needs to resolve the matter. This may involve discussions with the entity and the actuary, applying additional audit procedures, including possibly engaging another expert, or modifying the auditor's report.
- 27 Ordinarily, the actuary's work is documented in a report which complies with the Institute of Actuaries of Australia, *Code of Professional Conduct* and any relevant regulatory requirements or equivalent International professional standards or relevant regulatory requirements.
- 28 During the course of the engagement, the auditor uses the report of the actuary. If the auditor has a question about an aspect of the actuary's work, the auditor discusses this aspect with the actuary to obtain an explanation about that aspect of the work performed. This does not, however, limit the right of the auditor to any information or explanation that may be required in the performance of their duties in accordance with the auditor's professional standards.

Reference to the Work of an Actuary in the Auditor's Report

- 29 ASA 620 requires that, when issuing an unmodified auditor's report, the auditor does not refer to the work of an expert.
- 30 If as a result of the work of the actuary the auditor decides to issue a modified auditor's report, in some circumstances it may be appropriate in explaining the nature of the modification, to refer to or describe the

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work of the actuary (including the identity of the actuary and the extent of the actuary's involvement). In these circumstances, ordinarily the auditor obtains the permission of the actuary before making such a reference. If permission is refused and the auditor considers that a reference is necessary, the auditor may need to seek legal advice.

- 31 *ASA 701 Modifications to the Auditor's Report* provides further mandatory requirements and explanatory guidance regarding modifications in the auditor's report.

Conformity with International Pronouncements

- 32 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.