

# ASOP 21

## Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews and Financial Examinations

*Previous version: 2004*

*Adopted by the ASB: September 2016*

*Effective: Fiscal Periods beginning*

*December 15, 2016*

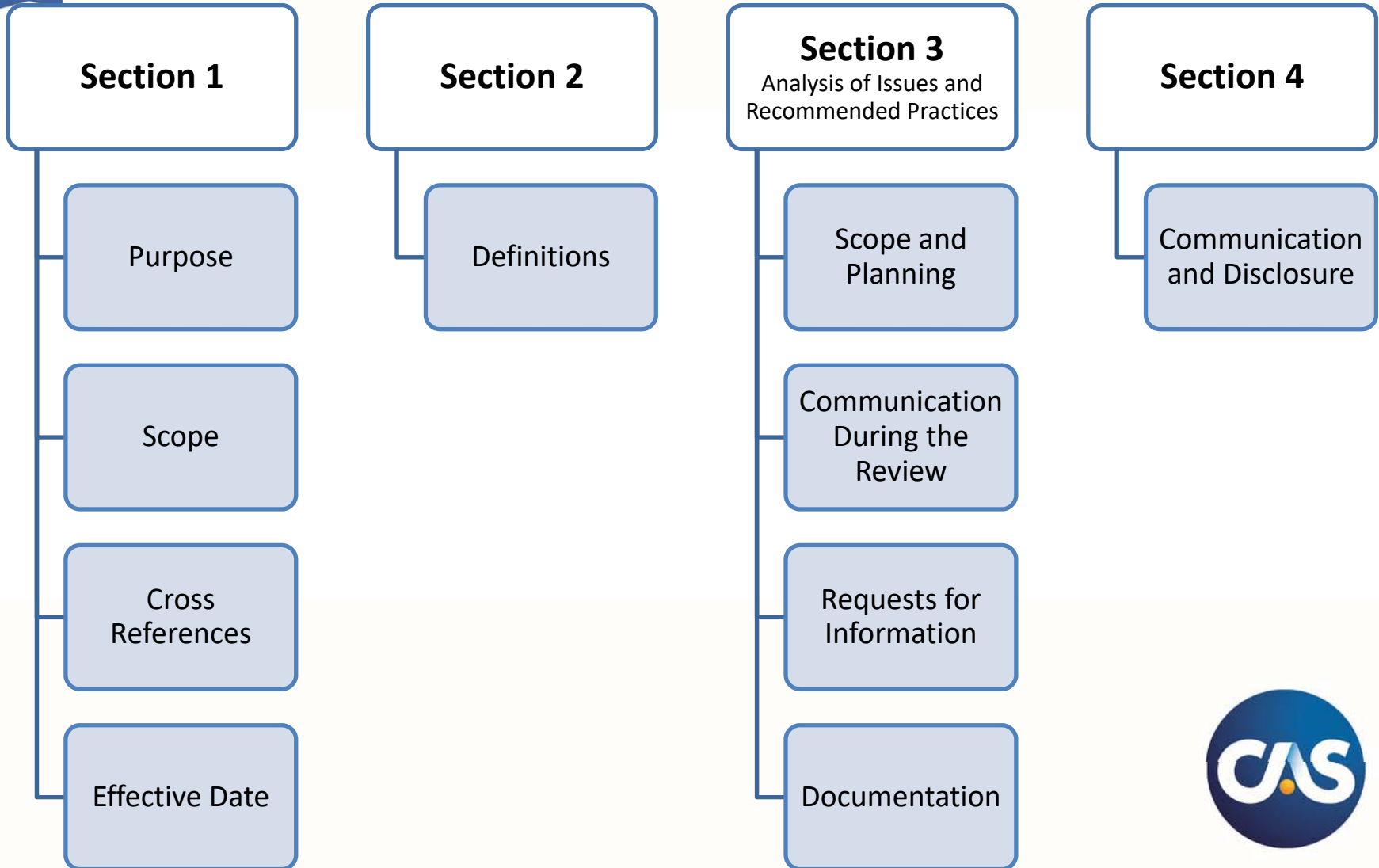


# Motivation and Key Changes

- Prior version was before
  - Process and controls in the Sarbanes-Oxley environment
  - NAIC Model Audit Rule
  - Risk-focused basis for examinations
- Expanded title: explicitly names *financial* examinations and *financial* reviews as well as *financial* audits
- Expanded and clarified scope
  - Applies to more limited scope regulatory activities such as financial reviews
  - Generally does *not* apply to filings, tax returns, contract performance audits, internal audit functions
- Significantly expanded the guidance for both the reviewing actuary and the responding actuary



# Outline of ASOP 21



# Section 1

- Purpose: Provide guidance to actuaries when performing actuarial services while responding to or assisting auditors or examiners
- Scope: Applies to responding actuaries and reviewing actuaries in connection with
  - Financial Audit
  - Financial Examination
  - Financial Review
- Does not apply to:
  - Filings: rate filings, tax returns
  - Audit, review or examination of contract performance
  - Actuaries working in an internal audit function except when the actuary directly assists the (outside) auditor or examiner



# Section 1

- Cross References: Referenced documents may be amended or restated; actuary should consider the guidance in this standard to the extent it is applicable and appropriate
- Effective Date: Financial audit, financial review or financial examination for fiscal periods *beginning* on or after December 15, 2016.



# Section 2 - Definitions

## Clarifications:

- Auditor: External firms or professionals only
- Responding Actuary: An actuary who is authorized by the entity to respond to the auditor or examiner on behalf of the entity being audited, reviewed, or examined with respect to specified elements of the entity's financial audit, financial review or financial examination that are based on actuarial considerations. Any given financial audit, financial review or financial examination may involve one or more responding actuaries.
- Reviewing Actuary: An actuary designated by the auditor . . . to assist with the financial audit, . . . with respect to specified elements of the financial audit, . . . that are based on actuarial considerations. Any given . . . may involve one or more reviewing actuaries



# Section 2 - Definitions

## New terms defined:

- Contract Performance
- Entity
- Financial Audit – including effectiveness of internal controls
- Financial Examination – including corporate governance or management oversight
- Financial Review – conducted by an auditor using limited procedures
  - Does not include financial reviews for other purposes such as M&A or IPO transactions
- Generally Accepted Accounting Standards – broadly defined



# Section 3 – Scope & Planning

## Reviewing Actuary

- 3.1 Review the scope and assist with the planning associated with actuarial work (to the extent practicable)
  - 3.1.1 Understand the Scope: relevant aspects and auditor's expectations re nature, extent, timing, communication
  - 3.1.2 Inform the Responding Actuary re scope and timing and type of information to be requested (to the extent practicable)

## Responding Actuary

- 3.2 *Consider* discussing the nature, format and timing of responses with the entity





# Section 3 – Communication

## Reviewing Actuary

- 3.3 Disclose to the auditor any relationship with the entity

## Responding Actuary

- 3.4 Be appropriately responsive to requests within the scope. May involve other individuals in responding



# Section 3 – Requests for Information

## Reviewing Actuary

- 3.5 Cooperate with the Responding Actuary
- 3.5.1 Communicate, preferably in writing, what information is requested

## Responding Actuary

- 3.5 Cooperate with the Reviewing Actuary and in the compilation of information requested by the auditor
- 3.5.1 Communicate with the entity about time frame; work with the entity if conflicts; consider whether the info requested is within the scope



# Section 3 – Requests for Information (2)

## Reviewing Actuary

- 3.5.3 In the event of disagreement re requested info: discuss the issue with the auditor and the entity

## Responding Actuary

- 3.5.2 Consider
  - Information readily available?
  - What other info is available or can reasonably be produced
  - Within the scope?
- Work with the auditor if there are conflicts or time frame issues



# Section 3 – Requests for Information (3)

## Reviewing Actuary

## Responding Actuary

- 3.5.4: Data, Assumptions, Methods, Models, Controls: Be prepared to discuss
  - Data used
  - Methods and assumptions used and judgments applied, including rationale
  - Source of anything not set by Resp Actuary
  - Models used
  - Design and effectiveness of controls around process, procedures, models
  - Significant risks to the entity considered by the Resp Actuary
  - Reasoning to support results and conclusions



# Section 3 – Requests for Information (4)

## Reviewing Actuary

## Responding Actuary

- 3.5.5 Changing Conditions: Be prepared to discuss circumstances that had or may have a significant effect. Examples:
  - Changes in operating environment
  - Trends in experience
  - Product or plan changes
  - Changes in product or demographic mix
  - Changes in policies or procedures
  - Changes in accounting rules, laws, regulations



# Section 3 – Requests for Information (4), Documentation

## Reviewing Actuary

- 3.5.6 Be aware of confidentiality – see Precept 9
- 3.6 May produce documentation for team or principals
- 3.6.1 Document findings
  - Evidence procedures planned and coordinated with auditor
  - Summary description of items subject to review
  - Description of procedures
  - Summary description of results: conclusions and findings

## Responding Actuary

- 3.5.6 Be aware of confidentiality – see Precept 9
- 3.6 May produce documentation for team or principals
- 3.6.2 *Consider* documenting information provided



# Section 4 – Communications and Disclosure

## Reviewing Actuary

- 4.1 Comply with ASOP No. 41 including, as applicable:
  - Material assumption or method prescribed by applicable law
  - If the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by another party
  - Any material deviation from the ASOP

## Responding Actuary

- 4.1 Comply with ASOP No. 41 including, as applicable:
  - Material assumption or method prescribed by applicable law
  - If the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by another party
  - Any material deviation from the ASOP



# Impact on the Reserving Actuary

*Nothing should change based on the new version*

## Reviewing Actuary

- Can you expect to receive an ASOP No. 41 compliant actuarial report?
- Underlying data?
- What about proprietary models used by the Responding Actuary or the Entity?

## Responding Actuary

- Get sign-off from the entity before responding to requests
- Your job is easy if you've already got good documentation
  - Your report
  - Data you used
  - Possible discussion with reviewing actuary or auditor
- What if the Reviewing Actuary wants data you didn't use?

