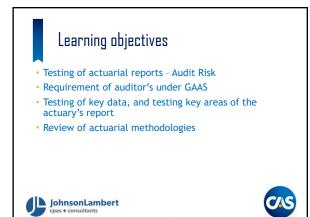


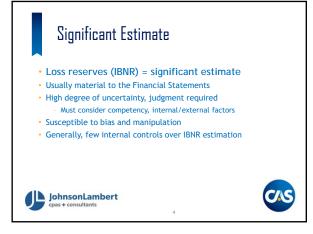
CAS

Carolyn Rice, CPA

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What we need to do-the standard (GAAS)

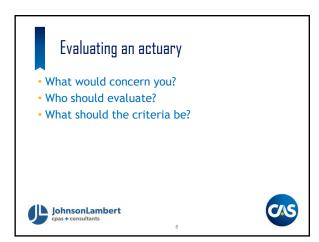
AU-C 500 paragraph .08: a. evaluate the competence, capabilities, and objectivity of that specialist;

b. obtain an understanding of the work of that specialist; and

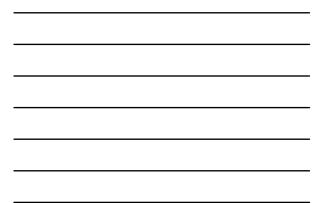
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- c. evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion.

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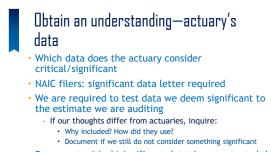


Obtain an understanding—scope actuary's work

• What's the scope? - Included, excluded?

- What's changed since last year?
- Is the actuary's understanding of the business, exposures and coverages accurate?
- Something missing, things not adding up?
- Document understanding and inquiries

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10

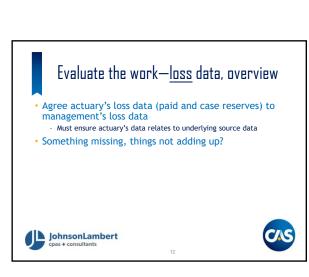
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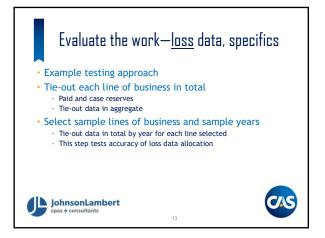
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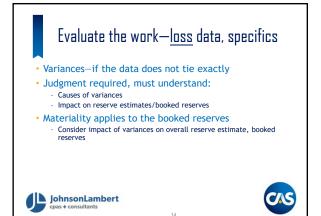
Document critical/significant data, how we tested the data

11

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- Consider impact of exposure data on selected methodologies

 Examples: bed/auto/employee counts, payroll, earned premium

 Actuary must identify "significant data" for NAIC filers

 "Significant data" may not have significant impact on reserve estimate
- Significant data may not have significant impact on reserve estimation possible approaches to testing exposure data:
 Analytical: compare to prior years, changes in business/program, use information obtained from underwriting festing as basis for analytic
 Tie-out: agree to exposure data provided by management/client
 Inquiry: ask about changes, need to understand impact on total reserves
 Level of testing will depend on significance of the exposure item to estimate





Evaluate the work—<u>loss</u> data, understand potential pitfalls

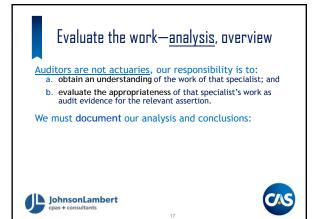
- Valuation date may not be client year-end
- May limit loss data
- Multiple claims may be combined as one loss event
- May sort/disaggregate loss data differently than management
- We need to understand why actuary manipulates data and evaluate the appropriateness, may reperform on a sample basis

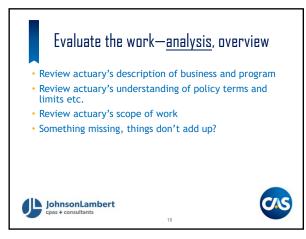
years, insureds etc. may be carved out

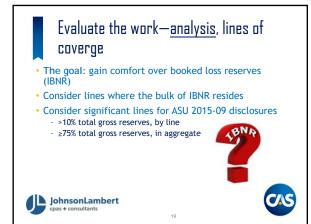
• Certain exposures,

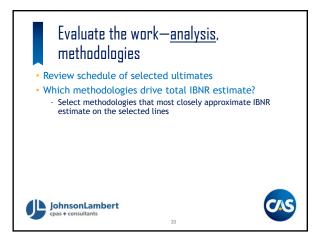
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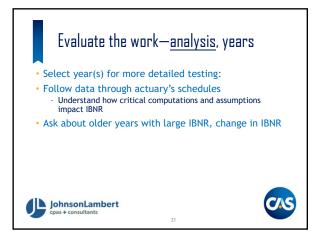




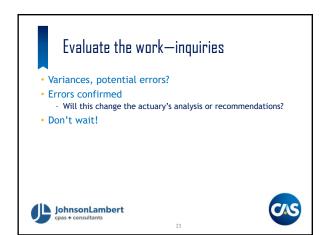


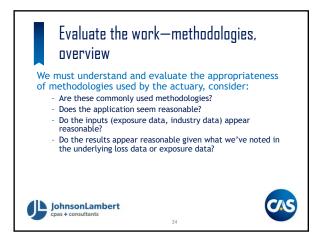






Evaluate the work—inquiries Inquiry is essential component of testing Understand and evaluate the appropriateness: Loss & exposure data, industry data, methodologies & assumptions Changes in actuary's approach/analysis etc. Unusual loss developments/trends Eqequired inquiry]: undue pressure from management





Other topics—industry data, benchmarks • Ask actuary about use of industry data and benchmarks: • Why, and to what extent (where in the analysis)? • Why and to what extent (where in the analysis)? • What are the sources of the data? • Any changes from the prior year/analysis?

25

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