



ACTUARIAL STANDARDS BOARD

**Actuarial Standard
of Practice
No. 21**

**Responding to or Assisting Auditors or Examiners
in Connection with Financial Statements for All Practice Areas**

Revised Edition

**Developed by the
Task Force to Revise ASOP No. 21 of the
General Committee of the
Actuarial Standards Board**

**Adopted by the
Actuarial Standards Board
September 2004
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TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 21

This booklet contains the final version of a revision of ASOP No. 21, now titled *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas*.

Background

Financial Reporting Recommendation 2, *Relations with the Auditor*, was adopted in 1974 by the American Academy of Actuaries (Academy) and revised by the Academy in 1983. Recommendation 2 was limited in its application to audits in connection with financial statements of stock life insurance companies prepared in accordance with generally accepted accounting principles (GAAP).

In 1993, Financial Reporting Recommendation 2 was replaced by ASOP No. 21, which expanded the scope of the existing standard to apply to an actuary who acts for an organization in the preparation or review of a financial statement or report that is expected to be audited by a public accounting firm retained by that organization. The title was changed to *The Actuary's Responsibility to the Auditor* to make clear that the standard did not address auditors' responsibilities to actuaries. ASOP No. 21 also superseded Financial Reporting Recommendation 3, *Actuarial Report and Statement of Actuarial Opinion [for Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP]*, also adopted in 1974 and revised in 1983.

In 2002, the ASB decided that a revision of ASOP No. 21 was necessary because accounting and financial reporting have become increasingly complex since the original standard was issued and because audit issues have received increased attention in recent years.

The format has been revised to be consistent with the current format adopted by the ASB and reflects the adoption of other standards since ASOP No. 21 was originally developed.

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First Exposure Draft

The first exposure draft of this proposed revision was issued in September 2002, with a comment deadline of March 15, 2003. The first exposure draft expanded the scope of the original standard to provide guidance to actuaries responding to or assisting examiners when the examiners are engaged in the review of a financial statement and made clear that the scope includes statutory financial statements as well as GAAP financial statements. The first exposure draft removed any reference to the preparation of financial statements, because other ASOPs provide guidance for such preparation. Instead, the first exposure draft provided guidance to actuaries serving as responding actuaries. The first exposure draft provided for express designation of both responding and reviewing actuaries to clarify the assignment of the significant responsibilities associated with each role. Thirty-six comment letters were received. The task force carefully considered all comments received and made changes to the language in some sections.

Second Exposure Draft

The second exposure draft of this proposed revision was issued in January 2004 with a comment deadline of April 30, 2004. Twelve comment letters were received. The task force carefully considered all comments received and made appropriate changes in a few sections. For a summary of the substantive issues contained in the comment letters on the second exposure and the task force's responses, please see appendix 2.

The Task Force to Revise ASOP No. 21 thanks everyone who took the time to contribute comments on the exposure drafts.

The ASB voted in September 2004 to adopt this standard.

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ACTUARIAL STANDARD OF PRACTICE NO. 21

**RESPONDING TO OR ASSISTING AUDITORS OR EXAMINERS
IN CONNECTION WITH FINANCIAL STATEMENTS FOR ALL PRACTICE AREAS**

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 **Purpose**—This actuarial standard of practice (ASOP) provides guidance to actuaries when providing professional services while responding to or assisting auditors or examiners in connection with an audit or examination of a financial statement.
- 1.2 **Scope**—This standard applies to actuaries when providing professional services as a responding actuary, as defined in section 2.5, or as a reviewing actuary, as defined in section 2.6, in connection with an audit or examination of a financial statement, as defined in section 2.3. The standard does not apply to actuaries when providing services in connection with filings, such as tax returns or Form 5500 filings, which may contain financial information but do not constitute financial statements as defined herein.
- If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.
- 1.3 **Cross References**—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.
- 1.4 **Effective Date**—This standard is effective for an actuary’s work in connection with an audit or examination for which the actuary’s involvement as the responding or reviewing actuary begins on or after April 30, 2005.

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Section 2. Definitions

The terms below are defined for use in this standard of practice.

- 2.1 Auditor—The firm or professional engaged to conduct an examination in accordance with generally accepted auditing standards for the purpose of issuing an opinion on a financial statement.
- 2.2 Examiner—Employee of or contractor to state or federal regulators performing an examination of a financial statement on behalf of a governmental agency responsible for oversight of the financial condition of the entity. Most commonly, examiners are financial examiners of the various state departments of insurance.
- 2.3 Financial Statement—A report prepared for the purpose of presenting the financial position and the change in the financial position for the reporting period of an entity, prepared in accordance with accounting requirements prescribed or permitted by state regulators, governmental accounting standards, or applicable generally accepted accounting principles.
- 2.4 Prescribed Assumption—A specific assumption that is mandated, or that is selected from a specified range that is deemed to be acceptable, by law, regulation, or other binding authority.
- 2.5 Responding Actuary—An actuary expressly designated by an entity to respond to the auditor or examiner with respect to specified elements of the entity's financial statement that are based on actuarial considerations. An entity may expressly designate one or more actuaries as responding actuaries for a particular audit or examination.
- 2.6 Reviewing Actuary—An actuary expressly designated by the auditor or examiner to assist with the audit or examination of a financial statement with respect to specified elements of the financial statement that are based on actuarial considerations.

Section 3. Analysis of Issues and Recommended Practices

- 3.1 Responsibilities of the Responding Actuary—The actuary should be appropriately responsive to the auditor's or examiner's reasonable requests, as described below. The responding actuary may involve other actuaries in responding to the auditor or examiner.
 - 3.1.1 Data, Assumptions, and Methods—The responding actuary should be prepared to discuss with the auditor or examiner the following items, based on existing

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documentation, underlying those elements of the financial statement for which the actuary is the responding actuary:

- a. the data used;
- b. the source of prescribed assumptions, if any;
- c. the methods used; and
- d. the basis for assumptions that are not prescribed assumptions.

3.1.2 Environmental Considerations—The responding actuary should be prepared to discuss with the auditor or examiner known circumstances that, in the actuary's professional judgment, had a significant effect on the preparation of those elements of the financial statement for which the actuary is the responding actuary. Examples of such circumstances may include the following:

- a. changes in the operating environment;
- b. trends in experience;
- c. product or plan changes and changes in product mix or demographic mix;
- d. changes in the entity's methods, policies, or procedures, or in statutory valuation bases; and
- e. compliance with relevant new or revised accounting rules, laws and regulations, or other government promulgations.

3.1.3 Requests for Information—The responding actuary should be appropriately responsive to the auditor's or examiner's reasonable requests for other relevant information such as data, analyses, and sample calculations.

3.2 Responsibilities of the Reviewing Actuary—The reviewing actuary has responsibility with respect to the planning and documentation of the audit or examination procedures, as described below.

3.2.1 Planning—The reviewing actuary should discuss the scope of the audit or examination with the auditor or examiner as well as the nature, extent, and timing of the reviewing actuary's procedures, including how the results of the review will be communicated. The reviewing actuary should inform the responding actuary or the entity about the expected timing of the audit or examination and request the

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information needed by the reviewing actuary to perform the planned procedures.

3.2.2 Documentation—In addition to the documentation requirements of ASOP No. 41, *Actuarial Communications*, the reviewing actuary's documentation should include the following:

- a. evidence that the reviewing actuary's procedures have been planned and coordinated with the auditor or examiner;
- b. a summary description of the items subject to the reviewing actuary's audit or examination procedures;
- c. a summary description of the procedures followed by the reviewing actuary; and
- d. a summary description of the results of the review, providing conclusions or findings.

3.3 Relationship with the Entity Whose Financial Statement is Being Audited or Examined—The responding actuary and the reviewing actuary should disclose to the auditor or examiner their relationships, if any, with the entity whose financial statement is being audited or examined.

3.4 Confidentiality—An audit or examination may give rise to the exchange of confidential information. Any information received by the reviewing actuary should be considered confidential, except as to the auditor or examiner, unless otherwise indicated by the entity. The reviewing actuary should take appropriate steps to preserve the confidentiality of such information.

Section 4. Communications and Disclosures

4.1 Communication and Disclosure—Both the responding actuary and the reviewing actuary should comply with ASOP No. 41 in communicating findings and documenting work subject to this standard. The actuary should also include the following, as applicable, in an actuarial communication:

- a. the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);
- b. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other

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sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

- c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

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Appendix 1

Background and Current Practices

Note: The following appendix is provided for informational purposes, but is not part of the standard of practice.

Background

Financial Reporting Recommendation 2, *Relations with the Auditor*, was adopted in 1974 by the Academy and revised in 1983. Recommendation 2 was limited in its application to audits in connection with financial statements of stock life insurance companies prepared in accordance with generally accepted accounting principles (GAAP). In 1993, Financial Reporting Recommendation 2 was replaced by ASOP No. 21, which expanded the scope of the existing standard to apply to any actuary who acts for any organization in the preparation or in the review of a financial statement or report that is expected to be audited by a public accounting firm retained by that organization. Financial Reporting Recommendation 3, *Actuarial Report and Statement of Actuarial Opinion [for Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP]*, also adopted in 1974 and revised in 1983, was withdrawn in 1993 because the ASB determined that it was no longer needed.

Current Practices

Actuaries routinely work with auditors and examiners when financial statements are being reviewed. Because accounting and financial reporting have become increasingly complex in the period since ASOP No. 21 was adopted, and audit issues have received increased attention in recent years, the ASB decided that a revision of ASOP No. 21 was necessary.

Many organizations have a number of actuaries involved in financial statement preparation but frequently want to have the auditor assistance coordinated. This will, in many cases, define the role of the responding actuary as different from that of the preparing actuary. The responding actuary, while not necessarily responsible for the preparation of the financial statement, is usually well versed in the organization's financial statement work (or, in a large organization, a specific portion thereof) performed by actuaries and therefore is in a position to provide positive and timely responses to auditors or examiners. In many cases the responding actuary (or actuaries in the case of a large organization) may also have been the preparing actuary (or actuaries).

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This revision of ASOP No. 21 expands the scope of the standard to include responsibilities to examiners when the examiners are engaged in the examination of a financial statement. This revision also clarifies that the standard applies to the audit or examination of statutory financial statements.

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Appendix 2

Comments on the Second Exposure Draft and Task Force Responses

The second exposure draft of this actuarial standard of practice (ASOP), then titled *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements (for All Practice Areas)*, was issued in January 2004, with a comment deadline of April 30, 2004. Twelve comment letters were received. The Task Force to Revise ASOP No. 21 carefully considered all comments received and made appropriate changes in a few sections. Summarized below are the significant issues and questions contained in the comment letters and the task force’s responses to each. Unless otherwise noted, the section numbers and titles used below refer to those in the second exposure draft.

GENERAL COMMENTS	
Comment	One commentator believed that the ASOP should explicitly state that the appointed actuary will be considered a responding actuary with respect to statements of actuarial opinion.
Response	The task force had discussed this issue previously with respect to the first exposure draft and believed that the appointed actuary will not necessarily be a responding actuary. The scope of the standard does not include the duties of the appointed actuary with respect to statements of actuarial opinion.
SECTION 2. DEFINITIONS	
Comment	One commentator suggested that the ASOP include a definition of “preparing actuary.”
Response	The task force believed that the duties of the preparing actuary were beyond the scope of this standard.
Section 2.2, Examiner	
Comment	One commentator questioned whether this definition was meant to include financial analysts who perform “desk reviews” on annual and quarterly statutory statements.
Response	The task force believed that a review that does not constitute an audit or an examination of a financial statement is not in the scope of the standard.
Section 2.3, Financial Statement	
Comment	One commentator believed that this definition should include the upcoming international accounting standards.
Response	The task force believed that the phrase “applicable generally accepted accounting principles” was sufficiently broad to include upcoming international accounting standards.

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Comment	One commentator believed that the definition should be expanded to cover presentations of financial position that are intended to be publicly available, “regardless of whether in accordance with standards or regulations.” Another commentator questioned whether “special reports” and incomplete financial statements subject to audit or examination were covered by this definition. Another commentator believed the definition should include “agreed upon procedures” to cover times when accounting firms are asked to audit financial information that is not technically a financial statement, such as closed block statutory filings.
Response	The task force intended that the scope of the standard be limited to audits or examinations of financial statements, as defined in section 2.3.
Section 2.5, Responding Actuary	
Comment	One commentator noted that the reviewing actuary normally has access to any actuary at an attest client and that the reviewing actuary may not question whether the other actuary was expressly designated by the client to respond to the auditor or not. The commentator suggested that any actuary responding to the auditor or examiner, whether expressly designated or not, should follow this standard.
Response	The task force disagreed and made no change. The purpose of this ASOP is to provide guidance for those who have been expressly assigned the roles of a reviewing actuary or a responding actuary, as defined in this standard.
Comment	One commentator believed the definitions should explicitly state that a consultant could perform these roles.
Response	The task force believed that the definitions were sufficient to include consultants.
Section 2.6, Reviewing Actuary	
Comment	One commentator sought clarification about what it means to be “designated” in this context and questioned whether an actuary would be designated if he or she researched and responded to an examiner’s question about some actuarial aspect of a company’s financial statement.
Response	The task force modified the definition by adding “expressly” before “designated,” which is consistent with the definition of “responding actuary.”
Comment	One commentator questioned whether a regulatory actuary who does not typically become integrally involved in the planning of periodic financial examinations could be considered a reviewing actuary.
Response	The task force believed that a regulatory actuary is a reviewing actuary when expressly designated to assist with an audit or examination of a financial statement.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Responsibilities of the Responding Actuary	
Comment	One commentator believed that the standard should require actuaries to provide an assessment for all assumptions used in the measurements, whether prescribed or not.
Response	This task force believed generally accepted actuarial practice does not require the responding actuary to comment on the reasonableness of prescribed assumptions.

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Section 3.1.1, Data, Assumptions, and Methods	
Comment	One commentator suggested adding new list items about the impact of any change in actuarial assumptions and the identification of any assumptions used that are not the responding actuary's best estimate of future results.
Response	The task force believed that some such requests, where appropriate, would be covered by sections 3.1.2 or 3.1.3.
Comment	One commentator sought clarification about what was meant by the phrase "based on availability."
Response	The task force clarified the language.
Section 3.1.2, Environmental Considerations	
Comment	One commentator suggested adding a new list item about circumstances surrounding recent changes to the company's appointed actuary.
Response	The task force noted that the list of examples was not intended to be exhaustive and the actuary may consider other factors.
Comment	One commentator suggested that language be added to state that the responding actuary should be prepared to discuss the listed environmental considerations to the extent available.
Response	The task force believed the existing language covered this.
Section 3.1.3, Requests for Information	
Comment	One commentator believed the language was overly broad. Several other commentators believed that the language was consistent with generally accepted actuarial practice.
Response	The task force believed that the language was appropriate.
Comment	One commentator suggested adding the phrase "in support of those elements of the financial statement for which the actuary is the responding actuary."
Response	The task force believed the existing language, read with the definition of "responding actuary" in section 2.5, encompassed this.
Section 3.2, Responsibilities for the Reviewing Actuary	
Comment	One commentator suggested that wording be added to indicate that additional requirements will exist in some situations, such as when a reviewing actuary employed in an audit capacity as an external or internal auditor is subject to additional requirements such as generally accepted auditing standards.
Response	The task force believed that guidance with respect to auditing standards was beyond the scope of this standard.
Comment	One commentator suggested adding language similar to the last sentence of section 3.1 to state that the reviewing actuary may involve other actuaries in performing the audit or examination.
Response	The task force did not change the language. The second sentence of 3.1 had been included to make it clear that the responding actuary may in many cases be in a managerial role and is not necessarily expected to be the actuary most familiar with all items subject to audit or examination. The task force did not consider it necessary to add such language to 3.2 as the scope of the actuary's review is agreed to by the auditor or examiner. It is generally understood that an actuary may require the assistance of others.

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Section 3.2.1, Planning	
Comment	One commentator believed that language should be added to cover instances in which the reviewing actuary has performed a comparable review in prior periods and the results might be assumed to be similar if significant changes did not occur.
Response	The task force believed the existing language was appropriate.
Comment	One commentator noted that, based on the definition of reviewing actuary, the actuary designated by the auditor or examiner to review some actuarial financial statement item is a reviewing actuary. This would imply that, if the auditor asks an actuary at the company or at the auditing firm to assist with a small piece of the overall financials, the actuary becomes a reviewing actuary and is, therefore, responsible to comment to the responding actuary or the company with respect to the scope, procedures, and timing of the overall audit. The commentator recommended that the definition of reviewing actuary be revised or that this section make it clear that the reviewing actuary should discuss only items related to the piece of the audit on which the actuary is working.
Response	The task force believed that the definition of “reviewing actuary” was sufficiently clear in this context.
Section 3.2.2, Documentation	
Comment	One commentator suggested adding a requirement to include documentation of changes in scope in the course of the audit.
Response	The task force believed that this was implicit in the language.
Section 3.4, Confidentiality	
Comment	One commentator suggested that the section be revised to read “except as to the reviewing actuary and others in the reviewing actuary’s organization with a need to know.”
Response	The task force disagreed and made no change.
Comment	One commentator believed that this section should caution actuaries that the confidentiality safeguards offered by the standard are unlikely to keep documents produced for and provided to the government outside of the public domain.
Response	The task force believed it was not appropriate to add such guidance to the ASOP.
Comment	One commentator suggested that the section include language that permits an actuary to disclose confidential data if the actuary is legally obligated to do so.
Response	The task force noted that nothing in the ASOP precludes the actuary from complying with applicable law and that compliance with applicable law is not a deviation from the standard.