

Note: This version of ASOP No. 21 is no longer in effect.
It was superseded in 2005 by ASOP No. 21, Doc. No. 095.



ACTUARIAL STANDARDS BOARD

**Actuarial Standard
of Practice
No. 21**

The Actuary's Responsibility to the Auditor

**Revised by a Task Force of the
American Academy of Actuaries Committee on
Life Insurance Financial Reporting and a
Multispecialty Panel Appointed by the
Actuarial Standards Board**

**Approved by the
Life Committee of the
Actuarial Standards Board**

**Adopted by the
Actuarial Standards Board
April 1993**

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April 1993

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Actuary's Responsibilities to the Auditor

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice No. 21: *The Actuary's Responsibility to the Auditor*

This booklet contains the final version of a revised, retitled, reformatted, and expanded version of Financial Reporting Recommendation 2, which had the title, *Relations with the Auditor*. Recommendation 2 was first published by the American Academy of Actuaries (AAA) in 1974 and revised in 1983.

In addition to replacing Recommendation 2, the new standard incorporates in section 6 some language from Financial Reporting Recommendation 3, *Actuarial Report and Statement of Actuarial Opinion [for Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP]*. Recommendation 3 has been eliminated, the ASB having determined that it was no longer needed.

The revised standard has also been expanded in scope. Recommendation 2 was limited to the actuary's work in connection with the preparation or review of stock life insurance company financial statements prepared in accordance with GAAP. This new standard applies to an actuary's work for any 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 kinds of organizations referred to are described in subsection 1.2.

Revision and reformatting were carried out by a task force of the AAA Committee on Life Insurance Financial Reporting; expansion of the scope was done by a multispecialty panel appointed by the ASB.

In July 1991, the ASB issued an exposure draft of *The Actuary's Responsibility to the Auditor*. Eighteen written responses to the draft were received. Those comments have been considered by the Life Committee of the ASB and certain revisions made, as described below. The document provides a basic set of recommended practices for actuaries concerning their responsibilities to auditors.

Responses to Comments on the Exposure Draft

Summaries of comments received are in lightface type; the responses of the Life Committee are in **boldface**.

There were several comments that subsections 1.2, 2.1, and 5.1 were inconsistent as to financial statements being audited and those subject to audit by a public accounting firm. **This has been clarified in subsection 1.2, with the other references being deleted. The definition of *audited financial statement* was deleted and the material incorporated in subsection 1.2.**

The definition of *employee benefit program* was also deleted, as not needed in the standard.

In several letters, questions were raised as to why *preparing actuary* and *reviewing actuary* were defined in subsections 5.1 and 5.2, respectively, rather than in the Definitions section. **These definitions are now in subsections 2.1 and 2.2, respectively.**

Several commentators questioned the fact that subsection 5.4 placed on the preparing actuary the onus of identifying the confidential nature of information. **Subsection 5.4 now states that all information provided to the reviewing actuary should be considered confidential unless otherwise indicated.**

A number of comment letters indicated that there were places in the draft where it was unclear whether the preparing actuary, the reviewing actuary, or both were affected. **The language has been clarified in these areas.**

Several commentators said there was not a clear distinction between clarity of documentation (subsection 5.5.1 in the draft) and content of documentation (sub-section 5.5.2). **These subsections have been consolidated in a rewritten sub-section 5.5.1.**

One person suggested that this standard should incorporate whatever is needed from Interpretative Opinions 3 and 4 of the former *Guides and Interpretative Opinions as to Professional Conduct* of the AAA, and that references to the *Opinions* be shortened or deleted. **Reference to the *Opinions* has been deleted in subsection 1.1, but retained in section 5, since the two *Opinions* have been republished by the ASB.**

There were a number of editorial suggestions in the letters that were helpful in revising the document. The ASB thanks the respondents for their thoughtful and useful comments.

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ACTUARIAL STANDARD OF PRACTICE NO. 21

THE ACTUARY'S RESPONSIBILITY TO THE AUDITOR

PREAMBLE

Section 1. Purpose, Scope, and Effective Date

- 1.1 Purpose—This standard concerns the actuary's responsibility to the auditor in connection with preparation or review of audited financial statements.

This standard is a revised, reformatted, and expanded version of an existing standard which has been in effect since 1974. It replaces both Financial Reporting Recommendation 2, *Relations with the Auditor*, and Financial Reporting Recommendation 3, *Actuarial Report and Statement of Actuarial Opinion [for Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP]*, of the American Academy of Actuaries (AAA).

- 1.2 Scope—This standard applies to any actuary who:

- a. acts for any organization in the preparation of a financial statement or report which is expected to be audited or examined by a public accounting firm retained by the organization;
- b. contributes elements for inclusion in any such financial statement or report, or
- c. assists an auditor in the audit or review of any such financial statement or report.

The organizations referred to include life, health, or property and casualty insurance companies, fraternal benefit societies, reciprocal exchanges, Blue Cross/Blue Shield organizations, health maintenance organizations, risk retention groups, employee benefit programs, and organizations which sponsor employee benefit programs.

- 1.3 Effective Date—This standard is effective as of October 1, 1993.

Section 2. Definitions

- 2.1 Preparing Actuary—An actuary who acts in the preparation of a financial statement or report, or who provides information to be included in a financial statement or report.
- 2.2 Reviewing Actuary—An actuary who assists an auditor in the audit or review of a financial statement or report.

Section 3. Background and Historical Issues

Financial Reporting Recommendation 2, *Relations with the Auditor*, was adopted in 1974 by the AAA and revised by the AAA 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). The scope of this standard has been expanded to apply to any actuary who acts for any 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 has been changed to *The Actuary's Responsibility to the Auditor* to make clear that the standard does not address auditors' responsibilities to actuaries, which are addressed elsewhere.

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, has been retired as an actuarial standard because in practice such reports are no longer required.

Section 4. Current Practices and Alternatives

Only limited guidance has been provided to actuaries concerning their responsibilities to auditors in connection with the preparation or review of audited financial statements other than GAAP statements prepared for stock life insurance companies.

STANDARD OF PRACTICE

Section 5. Analysis of Issues and Recommended Practices

- 5.1 Responsibilities of Preparing Actuary—The preparing actuary should be prepared to disclose to the auditor the sources of data and the assumptions and methods underlying any elements in the financial statements for which the actuary is responsible, including, where appropriate, an appraisal of their suitability for the purposes at hand.
- 5.2 Responsibilities of Reviewing Actuary—The reviewing actuary should use a written plan clearly setting forth the nature and scope of the actuary’s responsibilities with respect to the review or audit. The actuary’s communications to the auditor should be in accordance with Interpretative Opinion 3 of the ASB, *Professional Communications of Actuaries*.
- 5.3 Relationship with the Organization Being Audited—The preparing actuary and the reviewing actuary should disclose to the auditor their relationships with the organization being audited.
- 5.4 Confidentiality—An audit may give rise to the exchange of confidential information. Any information provided to the reviewing actuary should be considered confidential unless otherwise identified by the preparing actuary or client; appropriate steps to preserve the confidentiality of such information should be taken by all actuaries with access to such information.
- 5.5 Documentation—An actuary to whom this standard applies should clearly document the work done in relation to the financial statements.
- 5.5.1 Clarity and Content of Documentation—The quantity, type, and content of documentation should fit the actuary’s needs and the circumstances of the engagement to which the documentation applies. Factors to be considered include the nature and scope of the work undertaken and any report or opinion required pursuant to it, and the nature and condition of the actuary’s and/or the organization’s records. The actuary’s documentation should be prepared so that it can be re-viewed and objectively appraised by another actuary practicing in the same field.

Although the quantity, type, and content will vary with the circumstances, documentation should generally include or show the procedures followed, assumptions made, tests performed, conclusions reached, and documentary evidence collected to support findings and conclusions.

In addition, the reviewing actuary’s documentation should generally include or show:

- a. information sufficient to demonstrate that the items audited or reviewed were in agreement with (or reconciled with) the company's records unless the absence of such reconciliation is disclosed in the actuary's report;
- b. that the reviewing actuary's activities had been planned and coordinated with the auditor engaged in the audit or review, and
- c. the resolution of exceptional or unusual matters.

5.5.2 Safe Custody of Documentation—In accordance with Interpretative Opinions 3(c)(4) and 3(c)(5) of the ASB, the actuary should adopt reasonable procedures for the safe custody of such documentation with particular regard for the provisions of Precept 10 of the AAA Code of Professional Conduct. The actuary should retain the documentation for a period of time sufficient to meet work needs and to satisfy any pertinent legal requirements for record retention.

Section 6. Communications and Disclosures

- 6.1 Actuarial Report—When an actuary's work is within the scope of this standard, any actuarial report or opinion prepared in connection with such work should identify the actuary, the actuary's relationship with the organization being audited, and the scope of the actuary's activity in relation to the financial statements involved. In situations where a number of actuaries who are responsible to a principal actuary participate in work relating to any such financial statement, any actuarial report or opinion should include the signature of the principal actuary.
- 6.2 Deviation from Standard—An actuary must be prepared to defend the use of any procedure that departs materially from this standard and must include, in any actuarial communication disclosing the result of the procedure, an appropriate statement with respect to the nature, rationale, and effect of such use.