Comment #5 - October 21 2015 – 12:23 p.m.

ASOP No. 21 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

To the Task Force to Revise ASOP No. 21,

Thank you for the opportunity to comment on the September 2015 exposed draft of proposed revisions to ASOP 21. We will address your questions as asked.

1. Is the scope limitation clear and appropriate?

   The scope limitation is clear in the title, scope, and definitions section. Since the scope is limited to “financial audits, financial reviews, and financial examinations,” we recommend adding rationale to the communication letter explaining what elements are not necessary or appropriate for non-financial audits, since many of the practices mentioned in the exposed draft are appropriate and helpful for other kinds of audits and examinations.

   We agree with the scope limitation to exclude contract performance is appropriate, because contracts often define audit procedures and the ASOP should not supersede contracts.

   In section 1.2, we recommend the following edit: “This standard applies to actuaries working as part of an internal audit function only to the extent that the actuary is working to support directly assists the auditor or examiner, for example, by testing financial controls.”

2. Does the proposed revision appropriately reflect changes in practice since 2004?

   Generally yes, although the reviewing actuary’s responsibilities could be enhanced to better align with two the Public Company Accounting Oversight Board’s (“PCAOB’s”) Staff Audit Practice Alerts (“SAPAs”). SAPA 10 provides guidance on professional judgment and professional skepticism. SAPA 11 provides guidance on testing management review controls. Both SAPAs influence external auditors’ practice. The draft standard does not mention the concepts of professional judgement, professional skepticism, or testing management review controls.

   The background section of the proposed draft indicates providing guidance “with respect to processes and controls in the Sarbanes-Oxley environment.” However, the exposed draft does not appear to provide much specific guidance for actuaries assessing internal controls. A reviewing actuary typically requests a list of controls, gathers and evaluates evidence controls were performed, and discusses controls with the responding actuary on behalf of the entity. For example, section 3.5.5 should add:

   3.5.5.f inherent and residual risk assessments

   3.5.5.g design and effectiveness of financial controls

   3.5.5.h the existence and potential resolution of any material weaknesses, significant deficiencies, or high risk deficiencies
3. Does the proposed revision accurately describe the responsibilities of the reviewing and responding actuaries?

Several enhancements would be helpful in section 3.

The purpose of section 3.2 is not entirely clear. The responding actuary may be directly employed by the entity or consult to the entity.

In section 3.5.5.d, we recommend deleting the word “statutory” since the example is valid for to any accounting basis.

In section 3.5.1, we recommend adding that the reviewing actuary should specify the granularity of information required to perform the actuarial procedures. The granularity of information is a key consideration of the responding actuary for all elements of section 3.5.2.

Section 3.5.4 states the responding actuary should be prepared to discuss certain items with the auditor. Reviewing actuaries often must gather and retain audit evidence to support their audit conclusions, typically in writing directly from the entity. We recommend enhancing section 3.5.4 to mention responding to audits in writing is generally appropriate.

In section 3.5.4, we recommend adding:

3.5.4.h Adjustments to values calculated outside of actuarial models

3.5.4.i Background information to assist the responding actuary fairly assess the reliability of the audited values e.g. the level of uncertainty in management estimates, model quality, and other qualitative factors

3.5.4.j Model validations

4. Does the proposed revision give appropriate guidance to both the reviewing and responding actuaries?

The US Qualification Standards define standards for responsible experience, basic education, and relevant continuing education for defined Statements of Actuarial Opinion (“SAOs”) in the United States. Appendix 1 lists example actuarial opinions. Audit opinions are specified in USQS Appendix 1. We recommend adding guidance in section 3.6.1 for reviewing actuaries documenting audit findings. Reviewing actuaries who are specialists supporting auditors may require different guidance than reviewing actuaries who are the auditors.

In July 2015 several Academy financial reporting committees responded to the PCAOB’s Staff Consultation Paper 2015-01, The Auditor’s Use of the Work of Specialists. The Academy’s letter has several considerations which the committee many consider for the revised standard. Some of the topics discussed include: reperformance; evaluating proprietary, third-party, or vendor-based models; and communication of complex actuarial work.

Sincerely,

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