



Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

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Sent VIA E-mail to comments@actuary.org

Thank you for the opportunity to respond to the Proposed Revision of Actuarial Standards of Practice (ASOP) 21: *“Responding to or Assisting Auditors or Examiners in Connection With Financial Audits, Financial Reviews and Financial Examinations”*. As a long-time user of actuarial reports and former auditor, I know first-hand that auditors or other non-actuarial users often perceive actuarial communications quite differently than the responsible actuary as supported and guided by Actuarial Standards of Practice. Accordingly my comments will first address this “Expectation Gap” before I specifically answer the four questions listed by the Board.

Expectation Gap

One of the best examples of the expectation gap that exist between non-actuaries and actuaries is the concept of the “intended user”. ASOP 41: *“Actuarial Communications”* defines an intended user as: *“Any person who the actuary identifies as able to rely on the actuarial findings.”* This definition in essence allows each actuary to create customized scope or limitations on use without a binding requirement that the scope limitation be explicitly stated in the actuarial communication. ASOP 41 section 4.1.3 a) does require that the intended user be identified but many actuaries comply by simply addressing the communication to the intended user no differently than an audit opinion is addressed to a Board of Directors or governing body. In the financial statement world, an audit opinion on financial statements is specifically presumed to be public and intended for all financial statement users unless stated otherwise thus creating the risk that absent specific and explicitly stated limitations on use, non-actuaries will expect the same status for actuarial communications.

To address this expectation gap as it pertains to the proposed revisions of ASOP 21, I would recommend that the responding actuary always be required to disclose to the auditor, examiner or reviewing actuary whether the requesting parties’ client or employer is an intended user of the actuarial communication and as such is able to rely on the communication. If the requesting parties’ client or employer is not an intended user, then upon request, the responding actuary should be required to provide the additional procedures, analysis or authorizations necessary for that client or employer to be added as an intended user. This will provide the requesting parties a better ability to assess their basis for reliance on the actuarial communication and whether they should request that the responsible actuary’s principal modify the contract with the responsible actuary to allow a broader definition of intended user.

These requirements discussed above are especially critical when the responsible actuary is a consulting actuary and not an employee of the principal. Non-actuaries tend to view consulting actuaries as similar to independent auditors and will often have an expectation that the consulting actuary is more objective and independent than an actuary employed by the principal. However, ASOPs and the Code of Professional Conduct do not differentiate between consulting actuaries and actuaries who are employed by the principal making it incumbent on the consulting actuary to clearly communicate any limitations on scope or use.

Responses to ASB Questions

Is the scope limitation to financial audits, financial reviews, and financial examinations clear and appropriate?
Yes, the title of the ASOP and the standard itself make the scope of the standard clear.

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2. *Does the proposed revision appropriately reflect the changes in financial audits, financial reviews, and financial examinations that have occurred since the current version of ASOP No. 21 was adopted in September 2004?* As a CPA, I have an established definition of Generally Accepted Auditing Standards (GAAS) in the United States that is different than that in the proposed revision to ASOP 21. My definition of GAAS is standards issued by the AICPA and designated as auditing standards. The AICPA has also begun issuing “attest” standards which is a different category of assurance services than audit that will often be applied to engagements involving actuarial communications. The ASB may want to avoid a term as established and widely used as GAAS. I would suggest “Applicable Auditing and Examination Standards” and would include the terms “examination”, and “other assurance engagements” in addition to the terms “audit” and “review” as part of the definition.
3. *Does the proposed revision accurately describe the responsibilities of the reviewing actuary and the responding actuary?* As discussed above, responding actuaries should be sensitive that non-actuaries may not be aware of ASOPs or the Actuarial Code of Professional Conduct and accordingly there are specific areas that must be clearly communicated such as intended user and the related limitations on scope and use that intended user implies. In addition, the proposed definition of “Responding Actuary” does not require the responding actuary to be the actuary responsible for the applicable actuarial communication as defined in ASOP 41, 3.1.4. In these circumstances, it is appropriate that the responding actuary who is not the responsible actuary meet the following additional criteria:
 - a. Have written authorization from the responsible actuary permitting or requesting the responding actuary to respond on their behalf to inquiries regarding specific actuarial communications issued by the responsible actuary.
 - b. Have sufficient qualifications and on-going knowledge regarding the specific actuarial communication to which the inquiry applies including continuing access to supporting documentation, data and related software.
4. *Does the proposed revision give appropriate guidance to both the reviewing actuary and the responding actuary involved in a financial audit, financial review, or financial examination?* I do not agree that the responding actuary should be expected to consider whether the information requested is within the scope of a financial audit, financial review or financial examination (Sec 3.5.2 c.). This will generally be outside the responding actuary’s area of expertise and absent confidentiality issues which are already addressed by the standard, this consideration should not be a prerequisite before responding.

Concluding Remarks-In reviewing the thirteen comment letters received as of December 30, 2015, all letters appear to be from actuaries including actuaries working in the insurance industry but none appear to be from a financial statement preparer or auditor perspective. Given the subject matter of ASOP 21 and the lack of response from these groups, I would encourage the ASB to proactively seek input from key auditor and regulatory groups

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before your deliberations are complete to ensure that all relevant matters have been considered. I would also encourage the Board to consider and integrate the guidance in this proposed revision of ASOP 21 with any guidance that will be issued in relation to the past exposure draft: *ASOPs and Public Pension Plan Funding and Accounting* as there are numerous overlaps and relationships between the two topics.

Sincerely

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