

Comment #8 – 12/7/15 – 10:49 a.m.

Via email: comments@actuary.org

Subject: Comments on ASOP 21 Exposure Draft

Thank you for your efforts to codify the necessary changes to ASOP 21. I have the following comments.

1. Readability and understanding would be enhanced by using a consistent order of the three items financial audit, financial examination and financial review. Because these are listed alphabetically in Section 2, it is suggested that they be listed in the same order in section 1.1, 1.2, 2.3, 2.11, 3.1, 3.1.1, 3.2, 3.4, 3.5.1, 3.5.2.c, 3.5.4, 3.5.5, and 3.5.6.
2. General Definition Suggestions
 - a. Item 2.1 would be improved by noting as a qualified professional.
 - b. Item 2.2 would be improved by adding “or experience refund”
 - c. Section 2.10 would be improved by clarifying that the responding actuary may be either internal or external. “An actuary (either internal or external to the entity) responding...
3. The concepts of Financial Audit and Financial Review are theoretically very similar, given that 2.7 implies that a Financial Review is generally similar to a Financial Audit but is more limited because it is applied to interim financial statement. Therefore, the description should be organized in a similar way. As currently written, there is no indication that the concepts are likely similar until the last sentence. It seems that a definition of Financial Review should be something more like this:

“An evaluation of financial statements on internal controls over financial reporting by an auditor, conducted under generally accepted auditing standards, with a view to expressing an opinion that the auditor finds no material modifications necessary for the statements to be considered as presented fairly in accordance with the applicable financial reporting framework, or that the auditor finds no material modifications necessary for the company’s internal controls over financial reporting. A financial review is often of interim financial statements.”
4. Section 3.1 should reference materiality in addition to scope. “... review the scope and materiality and assist...”
5. Suggest that the communication in 3.1.2 be suggested to be in writing.
6. Section 3.3 should be consistent with section 3.2. A suggested heading would be:

“Disclosure of Relationship between the Reviewing Actuary and the Entity”

and suggested text would be as follows including affiliate:

“The reviewing actuary should disclose to the auditor or examiner any relationships with the entity or its affiliates subject to the financial audit, financial examination or financial review.”

7. Suggest that 3.5 should note that the responses required conform to the ASOP on actuarial communications.
8. 3.5.4 indicates that the responding actuary should be prepared to discuss various items. What this misses is that the actuary should have initially prepared a reasonable package of items. The standard would be improved if it could be revised to create a responsibility for the actuary to prepare an initial set of workpapers that support the balance sheet. Understand that this would cause some rewriting because it would require the actuary to prepare something before actually responding to the review. But this is a reasonable part of the initial auditor / examiner request. Could the standard note that the entity should identify the actuary at the beginning of the audit/exam and that such person should prepare the initial package and become the reviewing actuary?
9. Suggest some other clarifications in 3.5.4
 - a. The reference to data could include reference the ASOP on data quality
 - b. The basis for assumptions should be more than just a statement. Support should also be provided. Could be modified to read “... and the supporting basis for ...”
 - c. Methods used should be discussed in light of acceptable actuarial standards so the discussion by the responding actuary should include some comment on whether the methods do indeed conform with acceptable standards
 - d. Results and conclusions may be provided without support that can be audited. It would be helpful if 3.5.4.g would refer to “the auditable reasoning that supports the results and conclusions”
10. Section 3.5.5 includes a note about circumstances that have had a significant effect. Significant is fairly vague and should be better defined. One suggestion would be that the actuary should be prepared to discuss items that have an impact larger than the materiality limit. This would tie into the materiality comment above.
11. Item 3.6.1.d should be amended to include comments about the quality of the items provided. One suggestion would be to add language as follows:

“d. a summary description of the results of the review, providing conclusions or findings and whether or not the actuary for the entity appears to follow professional standards of practice”
12. The summary by the reviewing actuary should also be clear on what items are not reviewed. Context for that information would also be enhanced by stating the percentage of the total represented by the “not reviewed” items.

With respect to the questions posed:

1. The scope limitation seems appropriate.
2. No response
3. The proposed revision would more accurately describe the responsibilities of the reviewing or responding actuary if amended as noted above.
4. The proposed revision gives better guidance if amended as noted above.