



ACTUARIAL STANDARDS BOARD

• EXPOSURE DRAFT •

**Proposed Revision of
Actuarial Standard
of Practice
No. 21**

**Responding to or Assisting Auditors or Examiners
in Connection with Financial Audits, Financial Reviews, and
Financial Examinations**

**Comment Deadline:
December 31, 2015**

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

**Approved for Exposure by the
Actuarial Standards Board
September 2015**

EXPOSURE DRAFT—September 2015

TABLE OF CONTENTS

Transmittal Memorandum	iv
Section 1. Purpose, Scope, Cross References, and Effective Date	1
1.1 Purpose	1
1.2 Scope	1
1.3 Cross References	1
1.4 Effective Date	2
Section 2. Definitions	2
2.1 Auditor	2
2.2 Contract Performance	2
2.3 Entity	2
2.4 Examiner	2
2.5 Financial Audit	2
2.6 Financial Examination	2
2.7 Financial Review	2
2.8 Financial Statements	3
2.9 Generally Accepted Auditing Standards	3
2.10 Responding Actuary	3
2.11 Reviewing Actuary	3
Section 3. Analysis of Issues and Recommended Practices	3
3.1 Scope and Planning for a Financial Audit, Financial Review, or Financial Examination	3
3.1.1 Understanding the Scope	3
3.1.2 Informing the Responding Actuary	3
3.2 Discussion between Responding Actuary and Entity	3
3.3 Relationship with the Entity Whose Financial Statement is Being Audited, Reviewed, or Examined	4
3.4 Communication from Responding Actuary	4
3.5 Requests for Information	4
3.5.1 Information Request Communication	4
3.5.2 Responding to Requests for Information	4
3.5.3 Disagreement on Provision or Use of Information	5
3.5.4 Data, Assumptions, Methods, Models, and Controls	5
3.5.5 Changing Conditions	5
3.5.6 Confidentiality	6
3.6 Documentation	6
3.6.1 Documentation of Findings by Reviewing Actuary	6
3.6.2 Documentation by Responding Actuary	6
Section 4. Communications and Disclosures	7

EXPOSURE DRAFT—September 2015

4.1	Communication and Disclosure	7
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APPENDIX

Appendix—Background and Current Practices	8
Background	8
Current Practices	9

EXPOSURE DRAFT—September 2015

September 2015

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 Audits, Financial Reviews, and Financial Examinations

FROM: Actuarial Standards Board (ASB)

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

This document contains an exposure draft of a proposed revision of ASOP No. 21 now titled *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each response will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments. If the attachment is in the form of a PDF, please do not “copy protect” the PDF.** Include the phrase “ASB COMMENTS” in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

If you wish to use conventional mail, please send comments to the following address:

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

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website, and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

EXPOSURE DRAFT—September 2015

Deadline for receipt of comments in the ASB office: **December 31, 2015**

Background

In 2002, the ASB decided that a revision of ASOP No. 21, whose predecessor was originally adopted in 1974 and was revised and published in 1993, was necessary because accounting and financial reporting had become increasingly complex since the original standard was issued and because audit issues had received increased attention in recent years. As a result, the current version was adopted in 2004.

In 2014, the ASB decided that another revision of ASOP No. 21 was necessary. Financial audits, reviews, and examinations have evolved significantly in the last ten years. The current version of ASOP No. 21 does not address the actuary's responsibility with respect to process and controls in the Sarbanes-Oxley environment and was adopted before the National Association of Insurance Commissioners promulgated the Model Audit Rule. Furthermore, audits and examinations are increasingly conducted on a risk-focused basis and this contributes to the need for a revision to ASOP No. 21.

Key Changes

Key changes reflected in this exposure draft are as follows:

1. The applicability of the ASOP to financial audits, financial reviews, and financial examinations has been expanded and clarified relative to current practices, especially the risk-focused and prospective view used in these financial audits, financial reviews, and financial examinations.
2. Definitions have been expanded and changed to reflect the current state of financial audits, financial reviews, and financial examinations.
3. The analysis of issues and recommended practices has been significantly reorganized to reflect the largely interactive nature of a financial audit, financial review, or financial examination.

Request for Comments

The task force appreciates comments on all areas of this proposed revision and would like to draw the reader's attention to the following questions in particular:

EXPOSURE DRAFT—September 2015

1. Is the scope limitation to financial audits, financial reviews, and financial examinations clear and appropriate?
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?
3. Does the proposed revision accurately describe the responsibilities of the reviewing actuary and the responding actuary?
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?

EXPOSURE DRAFT—September 2015

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EXPOSURE DRAFT—September 2015

**PROPOSED REVISION OF
ACTUARIAL STANDARD OF PRACTICE NO. 21**

**RESPONDING TO OR ASSISTING AUDITORS OR EXAMINERS
IN CONNECTION WITH FINANCIAL AUDITS, FINANCIAL REVIEWS, AND
FINANCIAL EXAMINATIONS**

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 performing actuarial services while responding to or assisting **auditors or examiners** in connection with a **financial audit, financial review, or financial examination**.
- 1.2 **Scope**—This standard applies to actuaries when performing actuarial services as a **responding actuary** or as a **reviewing actuary** in connection with a **financial audit or financial review** in accordance with **generally accepted auditing standards** or a **financial examination** for the purpose of oversight of the financial condition of an **entity**. This standard does not apply to actuaries when providing services in connection with filings such as rate filings, tax returns, or the schedules of actuarial information filed with the Form 5500 (for example, Schedule SB or MB), or in connection with the **financial audit, financial review, or financial examination of contract performance**. This standard applies to actuaries working as part of an internal audit function only to the extent that the actuary is working to support the **auditor or examiner**.
- 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.

EXPOSURE DRAFT—September 2015

- 1.4 Effective Date—This standard will be effective for any actuarial work in connection with a **financial audit**, **financial review**, or **financial examination** for which the actuary's involvement as the **responding actuary** or **reviewing actuary** begins on or after four months after adoption by the Actuarial Standards Board (ASB).

Section 2. Definitions

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

- 2.1 Auditor—The external firm or professional engaged to conduct a **financial audit** or **financial review** in accordance with **generally accepted auditing standards** for the purpose of issuing an opinion on a **financial statement**.
- 2.2 Contract Performance—The fulfillment of an **entity's** obligations required by a contract, for example, compliance under the provisions of a reinsurance contract or under a contract that includes a retrospective rate adjustment.
- 2.3 Entity—An institution, company, corporation, partnership, government agency, university, employee benefit plan, or other similar organization that may be subject to a **financial audit**, **financial review** or **financial examination**, as well as the individuals who are authorized to act on behalf of the organizations.
- 2.4 Examiner—An employee of or contractor to state or federal regulators performing a **financial examination** on behalf of a governmental agency responsible for oversight of the financial condition of the **entity**.
- 2.5 Financial Audit—An evaluation of **financial statements** or internal controls over financial reporting by an **auditor**, conducted under **generally accepted auditing standards**, with a view to expressing an opinion on whether the **financial statements** are presented fairly in all material respects within the applicable financial reporting framework or on the effectiveness of the **entity's** internal controls over financial reporting.
- 2.6 Financial Examination—An evaluation of an **entity's** financial condition by an **examiner**. It will generally include a review of the **financial statement** and will often include a review of financial strength, corporate governance, or management oversight.
- 2.7 Financial Review—An evaluation made for the purpose of expressing an opinion on whether the **auditor** is aware of any material modifications that should be made to the **financial statements** in accordance with the applicable financial reporting framework, or whether any material modifications are necessary to the company's internal controls over

EXPOSURE DRAFT—September 2015

financial reporting. A **financial review** is often of interim **financial statements**.

- 2.8 Financial Statements—Reports on the financial position and the financial activities of an **entity**, prepared in accordance with accounting requirements prescribed or permitted by insurance regulators and accounting standards.
- 2.9 Generally Accepted Auditing Standards—Sets of standards promulgated by various standards-setting bodies by which audits or reviews are performed and against which the quality of audits or reviews may be judged.
- 2.10 Responding Actuary—An actuary responding to the **auditor** or **examiner** on behalf of the **entity** being audited, reviewed, or examined with respect to specified elements of the **entity's financial audit, financial review, or financial examination** that are based on actuarial considerations. Any given **financial audit, financial review, or financial examination** may involve one or more **responding actuaries**.
- 2.11 Reviewing Actuary—An actuary designated by the **auditor** or **examiner** to assist with the **financial audit, financial review, or financial examination** with respect to specified elements of the **financial audit, financial review, or financial examination** that are based on actuarial considerations. Any given **financial audit, financial review, or financial examination** may involve one or more **reviewing actuaries**.

Section 3. Analysis of Issues and Recommended Practices

- 3.1 Scope and Planning for a Financial Audit, Financial Review, or Financial Examination—The **reviewing actuary** should, to the extent practicable, review the scope and assist with the planning associated with actuarial work on a **financial audit, financial review, or financial examination**.
 - 3.1.1 Understanding the Scope—The **reviewing actuary** should understand the relevant aspects of the scope of the **financial audit, financial review, or financial examination** as well as the **auditor's or examiner's** expectations regarding the nature, extent, and timing of the **reviewing actuary's** procedures, including how the results will be communicated.
 - 3.1.2 Informing the Responding Actuary—The **reviewing actuary** should, to the extent practical, inform the **responding actuary** about the scope and timing of the actuarial procedures and describe the type of information to be requested by the **reviewing actuary**.
- 3.2 Discussion between Responding Actuary and Entity—The **responding actuary** should

EXPOSURE DRAFT—September 2015

consider discussing the nature, format, and timing of the **responding actuary's** responses with the **entity** subject to the **financial audit, financial review, or financial examination**.

- 3.3 Relationship with the Entity Whose Financial Statement is Being Audited, Reviewed, or Examined—The **reviewing actuary** should disclose to the **auditor** or **examiner** any relationships with the **entity** whose **financial statement** is being audited, reviewed, or examined.
- 3.4 Communication from Responding Actuary—The **responding actuary** should be appropriately responsive to requests from the **auditor** or **examiner** team, including the **reviewing actuary**, within the scope of the **financial audit, financial review, or financial examination**. The **responding actuary** may involve other individuals in responding to the **auditor** or **examiner**.
- 3.5 Requests for Information—The **reviewing actuary** and the **responding actuary** should cooperate in the compilation of the information needed by the **reviewing actuary** in order to perform the actuarial procedures.
- 3.5.1 Information Request Communication—The **reviewing actuary** should communicate, preferably in writing, what information is requested by the **reviewing actuary** in order to perform the actuarial procedures. To the extent practicable, the **reviewing actuary** should communicate with the **responding actuary** about the time frame within which the information is requested and work with the **responding actuary** if there are conflicts or time frames that cannot be met. The **reviewing actuary** should consider whether the information requested is within the scope of the **financial audit, financial review, or financial examination**.
- 3.5.2 Responding to Requests for Information—In responding to requests for information, the **responding actuary** should consider the following:
- a. the extent to which the information requested is readily available;
 - b. if the information requested is not readily available, what other information is available or reasonably can be produced that can meet the requester's needs; and
 - c. whether the information requested is within the scope of the **financial audit, financial review, or financial examination**.

To the extent practicable, the **responding actuary** should work with the requester

EXPOSURE DRAFT—September 2015

if there are conflicts or time frames that cannot be met.

- 3.5.3 Disagreement on Provision or Use of Information—In the event of disagreement between the **responding actuary** and the **reviewing actuary**, the **reviewing actuary** should discuss the issue with the **auditor** or **examiner** and the **entity** being audited, reviewed, or examined.
- 3.5.4 Data, Assumptions, Methods, Models, and Controls—The **responding actuary** should be prepared to discuss with the **auditor** or **examiner**, including the **reviewing actuary**, the following items underlying those elements of the **financial statement** or other elements within the scope of the **financial audit**, **financial review**, or **financial examination** for which the actuary is the **responding actuary**:
- a. the data used;
 - b. the assumptions used and judgments applied, and the basis for those assumptions and judgments;
 - c. the methods used;
 - d. the source of methods and assumptions not set by the **responding actuary**, if any;
 - e. the models used;
 - f. the controls around the process, procedures, and models; and
 - g. the reasoning to support results and conclusions.
- 3.5.5 Changing Conditions—The **responding actuary** should be prepared to discuss with the **auditor** or **examiner** circumstances that, in the actuary's professional judgment, had or may have a significant effect on the preparation of those elements of the **financial statement** or other elements within the scope of the **financial audit**, **financial review**, or **financial examination** that are based on actuarial considerations. Examples of such circumstances may include the following:
- a. changes in the operating environment;
 - b. trends in experience;

EXPOSURE DRAFT—September 2015

- c. product or plan changes and changes in product mix or demographic mix;
 - d. changes in the **entity's** 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.
- 3.5.6 Confidentiality—A **financial audit, financial review, or financial examination** may give rise to the exchange of confidential information. Under Precept 9 of the Code of Professional Conduct, an actuary shall not disclose to another party any confidential information unless authorized to do so or required to do so by law. Confidential information is information not in the public domain of which an actuary becomes aware as a result of providing actuarial services. It includes information of a proprietary nature and information that is legally restricted from circulation.
- 3.6 Documentation—The **reviewing actuary** and the **responding actuary** may produce independent documentation appropriate for their respective teams or principals.
- 3.6.1 Documentation of Findings by Reviewing Actuary—The **reviewing actuary** should document findings from the actuarial procedures. 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** actuarial audit, review, 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.
- 3.6.2 Documentation by Responding Actuary—The **responding actuary** should consider documenting information provided to the requester.

EXPOSURE DRAFT—September 2015

Section 4. Communications and Disclosures

- 4.1 Communication and Disclosure—Both the **reviewing actuary** and the **responding actuary** should comply with ASOP No. 41, *Actuarial Communications*, when communicating information and findings. The **reviewing actuary** and the **responding actuary** should include the following, as applicable, in their actuarial communications:
- 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 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.

EXPOSURE DRAFT—September 2015

Appendix

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 American Academy of Actuaries 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 and titled *The Actuary's Responsibility to the Auditor*, 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.

In 2002, the Actuarial Standards Board (ASB) decided that a revision of ASOP No. 21 was necessary because accounting and financial reporting had become increasingly complex since the original standard was issued and because audit issues had received increased attention in recent years. As a result, the current version was adopted by the ASB in 2004.

Further expansion of the breadth of audits, reviews, and examinations of financial statements to include a risk-focused component as well as an additional prospective view led the ASB to decide in 2014 that another revision of ASOP No. 21 was appropriate. Not only has the breadth changed but Sarbanes Oxley and the Model Audit Rule have become part of the landscape for audits, reviews, and examinations.

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.

EXPOSURE DRAFT—September 2015

Current Practices

Actuaries routinely work with auditors and examiners when financial statements are being audited, reviewed, or examined. Financial statements generally include the statement of financial position (balance sheet), statement of comprehensive income, reconciliation of capital or surplus, statement of cash flows, and accompanying notes.

During the process of revising ASOP No. 21, some additional considerations arose that may provide helpful additional information, as discussed below.

An external auditor is an outside firm engaged and paid by the entity subject to the audit. Internal auditors are employed by the organizations they audit and are employed to give objective assurance to the organization that employs them in accordance with that entity's standards.

A number of organizations have developed sets of principles that represent generally accepted auditing standards and are intended to be encompassed in the definition of the phrase as used in this standard. In the United States, the final authority for the standards for public companies is the Public Companies Accounting Oversight Board (PCAOB), which in turn is subject to the oversight of the Securities and Exchange Commission (SEC). The standards setting body for other U.S. companies is the Auditing Standards Board, a division of the American Institute of Certified Public Accountants (AICPA). The Generally Accepted Government Auditing Standards, also known as the Yellow Book, is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. The International Federation of Accountants (IFA), through the International Auditing and Assurance Standards Board (IAASB), sets the International Standards on Auditing (ISA). There are potentially other standards in various worldwide territories.