



Comments on the Exposure Draft of Proposed Revision to Actuarial Standard of Practice No. 21

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

December 30, 2015

The Actuarial Standards Board

The ASPPA College of Pension Actuaries (ACOPA) appreciates this opportunity to comment on the Exposure Draft of the Proposed Revision to Actuarial Standard of Practice No. 21: Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations. This response to the questions posed in the exposure draft is presented by actuaries who work primarily on small to mid-sized pension plans, including plans in which a significant portion of the pension obligation is attributable to principal employees.

Comments on the ASB Pension Committee’s Questions

ACOPA offers the following responses to questions 1 and 3 posed in the exposure draft:

Question 1: Is the scope limitation to financial audits, financial reviews, and financial examinations clear and appropriate?

Response: The scope of the proposed revision is not clear with regard to pension audits that are attachments to the Form 5500. Section 1.2 states that “This standard does not apply to actuaries providing services in connection with filings such as rate filings, tax returns, or schedules of actuarial information filed with the Form 5500 (for example, Schedule SB or MB)”. Since the Form 5500 is an information return, not a tax return, and the audit attachment is not part of the schedules of actuarial information, work on the audit attached to the Form 5500 would appear to be covered by the standard. However, an actuary could in good faith conclude that work on the audit is “services in connection with filings” so the standard does not apply. **ACOPA recommends** that the scope be clarified by adding a statement to the effect that the standard applies to a plan audit required to be attached to the Form 5500.

Question 3: Does the proposed revision accurately describe the responsibilities of the reviewing actuary and the responding actuary?

Response:

In section 2.10 and in much of section 3, the proposed revision reflects that the responding actuary is responding to the auditor or examiner, not directly to the reviewing actuary. The proposed revision does not similarly reflect that the reviewing actuary often will not be communicating directly with the responding actuary. Section 3.1.2 states that “to the extent practical”, the reviewing actuary should “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.” Section 3.5.1 has similar language regarding communications with the responding actuary about the time frame for the information request, and directs the reviewing actuary to “work with the responding actuary if there are conflicts that cannot be met”. Section 3.5.3 also assumes direct communication between the reviewing and responding actuaries. **ACOPA recommends** that sections 3.1.2, 3.5.1, and 3.5.3 be modified to reflect the reality that there may be no direct communication between the reviewing and responding actuaries. This could be accomplished by inserting “, or other representative of the entity whose financial statement is being audited, reviewed, or examined,” after “responding actuary” where it appears.

Section 3.2 appropriately advises the responding actuary to consider discussing responses with the entity being audited. Section 3.5.2 directs the responding actuary to consider how readily available requested information is, if there is other more readily available information might be sufficient, and whether the information is within the scope of the engagement. If there are conflicts, the responding actuary is to work with the reviewing actuary “To the extent practicable”. A key factor in determining what is “practicable” is the degree to which the entity employing the responding actuary has authorized the actuary to respond to the reviewing actuary or other representative of the auditor or examiner. It would be helpful to clarify that if the discussion pursuant to section 3.2 results in direction from the entity being audited to not respond to the request, or portions of the request, the standard does not require the responding actuary to override the direction received from the entity being audited or reviewed. **ACOPA recommends** inserting an additional item to be considered by the responding actuary in 3.5.2.: “the extent to which the entity whose financial statements are being audited, reviewed, or examined has authorized the actuary to respond to the information request”.

This letter was prepared by the ACOPA ASOP Task Force, Richard A. Block, Chair. The primary authors were Richard A. Block, FSPA; Thomas J. Finnegan, FSPA; Michael Bain, FSPA; Kurt Piper, FSPA, and Karen Smith, MSPA.

Thank you for your consideration of these comments.

Sincerely,

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