



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

February 20, 2008

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States

Dear Sir

Re: IAA comments on the IAASB Exposure Draft on Proposed Revised and Redrafted ISA 620, *Using the Work of an Auditor's Expert* and Conforming Amendments to Proposed ISA 500 (Redrafted), *Considering the Relevance and Reliability of Audit Evidence*

In response to the invitation to comment on the above exposure draft, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Committee on Insurance Accounting of the IAA. If, upon reading these comments, you identify items that you wish to pursue or for us to elaborate on, please do not hesitate to contact the chairperson of that Committee, Sam Gutterman, or any of the other members of the Committee.

Yours sincerely

Yves Guérard
Secretary General

Attachment: IAA comments

**A Commentary on the
EXPOSURE DRAFT: ISA 620, USING THE WORK OF AN AUDITOR'S EXPERT
AND CONFORMING AMENDMENTS TO PROPOSED ISA 500 (REDRAFTED),
CONSIDERING THE RELEVANCE AND RELIABILITY OF AUDIT EVIDENCE
Released by the International Auditing and Assurance Standards Board: October 2007**

INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the IAA) represents the international actuarial profession. Our fifty-eight Full Member actuarial associations represent more than 95% of all actuaries practicing around the world and are listed in an Appendix to these comments. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries. The IAA appreciates the opportunity to respond to this important IAASB discussion paper.

Our comments are written from the perspective of actuaries involved in financial reporting for insurers around the world, serving as both auditors' experts and managements' experts with respect to many entities around the world. The members of the committee responsible for preparing these comments are listed in an Appendix to this statement. Our response has been subjected to the due process required for it to constitute a formal view of the IAA, and it will be posted to the IAA's web site.

General Comments

Overall, we believe that the proposed amendments to be quite reasonable and will prove to be valuable changes in this ISA. In particular, we find that the revisions will be useful, particularly in conjunction with the application of the revised version of ISA 540. However, please note our specific comments provided below regarding particular sections of the proposed changes.

We note that the relationship between the actuary, the auditor and the applicable business regulator may be sufficiently important from a public policy view that it may benefit from specific attention in a separate project. In several countries these relationships have been dealt with in specific actuarial or auditor standards or guidelines. We believe that the working relations and communication between these three may be appropriately developed through some form of international guidance. We would be glad to elaborate on such an approach and would welcome the opportunity to develop this proposal further.

Specific Comments

The following are specific suggestions that are intended to assist in the drafting of the final version of the proposed changes in ISA 620 and 500.

1. As indicated in specific IAASB Question #2 below, we have not identified any reason to distinguish the relationship between the auditor and a specialist in the area of accounting or auditing and an expert as defined in the Exposure Draft.

2. Paragraph 3, first sentence. It may be useful to clarify to what the phrase "may accept" refers to, e.g., for the purpose of audit evidence?
3. Paragraph 5. It may be preferable to indicate to what the objectives of the auditor relate in both the paragraph and in the title of the paragraph. On first reading, the short title might lead the reader to believe that it relates to the objective of the ISA. For example, it might be expanded to read: "The objectives of the auditor relating to the use of the work of an auditor's expert: ..."
4. Paragraph 5(b). It may be somewhat more appropriate to substitute "appropriate" for "adequate".
5. Paragraph 6. A new definition should be added to paragraph 6. We believe that a definition of "expert's work", as the term is used here, is needed. For example, an expert may provide work in a number of areas; if an accountant is both an expert in an area outside accounting and auditing, as well as contributing to the audit as an accountant, the work being referred to here is restricted to the area of expertise outside accounting and auditing. The clarification could be accomplished by including in the definition the phrase "..., in some cases involving the development or review of models, methods and assumptions used in conjunction with the assessment of estimates." The clarification would also better tie this to ISA 540.
6. Paragraph 8(c). This might be better expressed as, "The significance of the findings of that expert's work in the context of the audit; ...".
7. Paragraph 11. We believe that it would be appropriate to indicate that the auditor and the auditor's expert should discuss applicable professional standards of practice that will affect the course of the expert's work. One way of doing so would be to add an 11(d) that could be worded, for example, "(d) The nature of professional guidance that will affect the course of the expert's work." Alternatively, it could be included as a bullet in A23. An example that might be included in the application guidance, might be the professional requirement that prior to commencement of work, actuaries in some jurisdictions are required to discuss the management's expert's work with the management's expert.
8. Paragraph 9. Although we agree that the second sentence provides a good example of assessment of "objectivity", it seems odd that an example is given with respect to "objectivity" and not to capabilities and competence. If it is appropriate to include this example in the ISA itself (as opposed to as part of the application guidance), it might be more appropriate either to give an example of each or, if it is deemed sufficiently important, to include it in a separate paragraph.
9. Paragraph A4. Although we understand that the intent of this paragraph is to indicate that the auditor may not require the assistance of an expert in a particular situation, we are concerned that in some cases a risk may arise that an auditor believes that the potential impact of the matter is smaller than it really is, or that practice in a different field is simpler than it appears. Although the most common reason why this situation may arise is the lack of significance of

the matter in relationship to the entity's total financial situation, it may not always be straightforward to make such a determination without adequate expertise. Additional application guidance may be necessary.

10. Paragraph A5. Although the list is a good one if there is sufficient knowledge of the area in question, it may prove difficult to make such an assessment. We have seen a number of situations in which an audit team, without sufficient actuarial experience, believed that an actuarial expert was not needed for an audit, with this assessment subsequently having been proven incorrect. For this reason, some audit firms have adopted a rule that an actuary must be involved in some way for any audit of an insurance company. Although we do not believe that such a rule is needed in an ISA, further elaboration here may be desirable.
11. Paragraph A6. We are not certain whether the second item in the list is needed here, since either it is redundant in combination with the other items listed or it should not matter in the context of whether to use an auditor's expert.
12. Paragraph A8, last sentence. This sentence directly repeats 6(d) – is it needed? If it is, then it should be reworded in some way.
13. Paragraph A15, last sentence. We believe that if the auditor's expert has played a significant role in preparation of the information that is being audited, the auditor "will not" rather than "may not" be able to use the work of that expert in that area.

The example may be useful to illustrate another more significant point, avoidance of the possibility or the impression of a self-audit. An auditor's internal expert, as a member of the audit team, should not be involved in a significant role in preparing information that is being audited. In most cases this concern also applies to an auditor's external expert. As a result, it may be more appropriate to deal with this in a separate paragraph, rather than just as an example.

14. Paragraph A19, third bullet. Due to the significance of models in some areas, it may be appropriate to include "models," after "What" in this item.
15. Paragraph A23, second bullet. Although we agree that this responsibility should be included, we believe that it would always be appropriate to communicate this responsibility, rather than leaving it an option by using "may".
16. New paragraph after A30. We suggest adding a paragraph addressing the uncertainty associated with an estimate for the assessment of which an expert is used. When judgment is used in the course of a management expert's work that can produce a significant audit risk, the expert should provide to the auditor some discussion of such uncertainty in the expert's report, for example, to identify where within the audit range the reported estimate lies.
17. A32, third bullet, the phrase beginning ", including..." Although a good point, this example is somewhat awkwardly placed under "data", as it is the resulting assumption or estimate that

would be either consistent or inconsistent with management's intent and ability, rather than the data itself.

Response to specific IAASB Questions

1. The proposal that proposed ISA 620 (Revised and Redrafted) deal exclusively with considerations relevant to using the work of an auditor's expert, and accordingly material dealing with the work of management's expert be expanded and moved to [proposed] ISA 500 (Redrafted).

IAA Comment: We believe that, overall, the treatment of these two categories of experts has been treated in a reasonable manner.

2. The proposal that the definition of "expert" in proposed ISA 620 (Revised and Redrafted) excludes persons or organizations possessing expertise in accounting or auditing, for the reasons explained.

IAA Comment: We do not see any reason why an exclusion should be made with respect to those who have specialized in a specific area of accounting or auditing, referred to as a "specialist". There does not appear to be a reason why the relationship between the audit team and a specialist in a specific area of accounting or auditing should be different than that between the audit team and an "expert". Further, audit evidence considerations should be identical to the considerations discussed in this Exposure Draft.

3. In addition to the matters referred to above, the IAASB is seeking comments on the application of the clarity drafting conventions. Respondents are asked to consider whether the objectives for the proposed ISA are appropriate, and whether the proposed requirements are appropriate responses to those objectives.

IAA Comment: We have no comment.

4. *Special Considerations in the Audit of Small Entities* – Respondents are asked to comment whether, in their opinion, considerations in the audit of small entities have been dealt with appropriately in the proposed ISA.

IAA Comment: They appear to have been.

5. *Special Considerations in the Audit of Public Sector Entities* – Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed ISA.

IAA Comment: We do not believe that any special considerations should be taken in the audit of public sector entities.

6. *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment,

in particular, on any foreseeable difficulties in applying the proposed ISA in a developing nation environment.

IAA Comment: We have not identified any specific difficulties in applying the proposed ISA in a developing nation environment.

7. *Translations* – Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed ISA.

IAA Comment: We have no comment.

Editorial Suggestions

We offer the following relatively minor editorial suggestions:

- The lists included in the proposed ISA appear to be punctuated inconsistently. In some cases each item ends with a period, while in others each item ends with a semi-colon. They should be consistent.
- Paragraph 11. The word "with" might be included prior to the first "the" in the first line.
- Paragraph A7, first listed bullet. "controls" may be more appropriate than "control".
- Paragraph A24, fourth line. It may be appropriate to include a "the" prior to the word "auditor's".
- Paragraph A29. In the second line, it may be somewhat better to use "may" rather than "are likely to". In the third line, "adequately" may be more appropriate than "properly", as it is not clear for what it is proper.
- Paragraph A32, second sentence. This might better start with "However, in other cases, when source...", since the current sentence sounds somewhat awkward.
- Paragraph A34, second line. "further" might be substituted for "additional", being consistent with the word used in paragraph 13 – it may not be desirable to use different terminology for the same concept.
- Paragraph A36, second line. "opinion that explains the nature" may be less awkward than "opinion, to explain the nature".
- Paragraph A32-33. Usually "data" is considered as a plural, while in this case it is treated for grammatical purposes as singular. However, it is a matter of style rather than substance.
- Appendix, second list, first bullet. We are not certain that "concepts" is the right word – it might be confused with the FASB's Concept statements. Possible "principles" or "other requirements" might be somewhat better.
- Appendix, second list, eleventh bullet. Possibly "and timing requirements" might be added at the end of this bullet.

Appendix A

Members of the IAA Insurance Accounting Committee

Sam Gutterman	Chairperson
David Congram	Vice-Chairperson
Francis Ruygt	Vice-Chairperson
Yutaka Amino	Institute of Actuaries of Japan)
Victor Hugo Cesar Bagnati	Instituto Brasileiro de Atuária (IBA)
Daniel Barron	Israel Association of Actuaries
Ralph Blanchard	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaires
Antonella Chiricosta	Istituto Italiano degli Attuari
David Congram	Canadian Institute of Actuaries
Alexander Dollhopf	Svenska Aktuarieföreningen
Guillermo Ezcurra Lopez De La Garma	Instituto de Actuarios Españoles
Mark J Freedman	Society of Actuaries
William Hines	American Academy of Actuaries
Armand Maurice Ibo	Institut des Actuaires de Côte d'Ivoire
Dragica Jankovic	Udru enje Aktuara Srbije
Burton D Jay	Conference of Consulting Actuaries
Jelica Klucovska	Slovenska Spolocnost Aktuarov
Ad A.M. Kok	Het Actuarieel Genootschap
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Kurt Lambrechts	Association Royale des Actuaires Belges
Yin Lawn	Actuarial Institute of Chinese Taipei
Kristine Lomanovska	Latvijas Aktuaru Asociacija
Anne Sundby Magnussen	Den Norske Aktuarforening
Brian Morrissey	Society of Actuaries in Ireland
Andreja Radic	Hrvatsko Aktuarsko Drustvo
Venkatarama Rajagopalan	Actuarial Society of India
Nithiarani Rajasingham	Singapore Actuarial Society
Thomas Ringsted	Den Danske Aktuarforening
Matthew Christopher Saker	Faculty of Actuaries
Jaanus Sibul	Eesti Aktuaaride Liit
Dieter Silbernagel	Deutsche Aktuarvereinigung e.V.
Lisa Simpson	Institute of Actuaries of Australia
Pentti Soininen	Suomen Aktuaariyhdistys
Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
Charles Vincensini	Institut des Actuaires
Peter Withey	Actuarial Society of South Africa
Derek Wright	Institute of Actuaries
Jesús Zúñiga San Martin	Colegio Nacional de Actuarios A.C.

Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires
(Argentina)

Institute of Actuaries of Australia (Australia)

Aktuarvereinigung Österreichs (AVÖ) (Austria)

Association Royale des Actuaire Belges (Belgique)

Instituto Brasileiro de Atuária (IBA) (Brazil)

Bulgarian Actuarial Society (Bulgaria)

Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)

Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)

Hrvatsko Aktuarsko Društvo (Croatia)

Cyprus Association of Actuaries (Cyprus)

Ceská Společnost Aktuárů (Czech Republic)

Den Danske Aktuarforening (Denmark)

Egyptian Society of Actuaries (Egypt)

Eesti Aktuaaride Liit (Estonia)

Suomen Aktuaariyhdistys (Finland)

Institut des Actuaire (France)

Deutsche Aktuarvereinigung e. V. (DAV) (Germany)

Hellenic Actuarial Society (Greece)

Actuarial Society of Hong Kong (Hong Kong)

Magyar Aktuárius Társaság (Hungary)

Félag Islenskra Tryggingastærðfræðinga (Iceland)

Institute of Actuaries of India (India)

Persatuan Aktuaris Indonesia (Indonesia)

Society of Actuaries in Ireland (Ireland)

Israel Association of Actuaries (Israel)

Istituto Italiano degli Attuari (Italy)

Institute of Actuaries of Japan (Japan)

Japanese Society of Certified Pension Actuaries (Japan)

Latvijas Aktuaru Asociācija (Latvia)

Lebanese Association of Actuaries (Lebanon)

Persatuan Aktuari Malaysia (Malaysia)

Colegio Nacional de Actuarios A. C. (Mexico)

Association Marocaine des Actuaire (Morocco)

Het Actuarieel Genootschap (Netherlands)

New Zealand Society of Actuaries (New Zealand)

Den Norske Aktuarforening (Norway)

Pakistan Society of Actuaries (Pakistan)

Actuarial Society of the Philippines (Philippines)

Polskie Stowarzyszenie Aktuariuszy (Poland)

Instituto dos Actuários Portugueses (Portugal)

Academia de Actuarios de Puerto Rico (Puerto Rico)

Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of Chinese Taipei
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)