



International Federation of Accountants

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Agenda Item

J

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9-10, 2009

IAIS Issues Paper, Relationship between Actuary and Auditor

Objective of Agenda Item

1. To obtain the Representatives' views regarding possible IAASB involvement in the development of an International Association of Insurance Supervisors' (IAIS) issues paper on the relationship between the actuary and external auditor in the preparation and audit of financial reports.

Background

2. On December 23, 2008, the Chair of the IAIS Accounting Subcommittee, Henning Göbel, wrote to the IFAC Executive Director, Professional Standards, with a view to seeking IAASB's assistance in the development of an IAIS issues paper regarding the relationship between the actuary and external auditor in the preparation and audit of an insurer's financial reports. To provide an indication of its objective, the IAIS included a preliminary draft of the issues paper in its request for assistance (see **Agenda Item J.1**).
3. While the paper is intended primarily to assist insurance supervisors worldwide in setting minimum expectations of such a relationship within the supervisory process, the IAIS notes that it may also be useful to the auditing and actuarial professions. The IAIS expects to finalize the paper by June 2009.
4. In order to inform the IAASB's consideration of the IAIS request, the IFAC Executive Director asked some IAASB members to seek an informal reaction to the draft paper from practitioners in their firms with relevant insurance industry audit experience. Preliminary input was received from one of the firms. The IAASB Steering Committee considered this input and the draft paper at its February 2009 meeting.
5. A somewhat related IAASB document that deals with relationships within a supervisory context is IAPS 1004,¹ which provides guidance on how the relationship between bank auditors and supervisors can be strengthened to mutual advantage. The predecessor to the IAASB, the International Auditing Practices Committee, developed IAPS 1004 in association with the Basel Committee on Banking Supervision.

¹ International Auditing Practice Statement (IAPS) 1004, "The Relationship Between Banking Supervisors and Banks' External Auditors."

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Matters for CAG Consideration

Consideration of Whether IAASB Should Be Involved

6. While the paper deals with a subject that is of particular relevance to the work of auditors in the insurance industry, it is primarily intended as guidance for insurance supervisors. Further, it covers aspects of the communication between actuaries and insurance supervisors, and the professional qualifications and affiliations of actuaries, that do not concern auditors and the audits of insurance entities directly. Accordingly, it would not appear that the paper in its present form and for its present purpose could be considered to fit the mold of an IAASB practice statement along the lines of IAPS 1004.
7. Nevertheless, from the informal input received from one of the firms, it appears that the draft paper includes some misunderstandings regarding certain concepts embodied in the ISAs as they apply in the context of insurance entity audits, for example, the independence of the insurer's actuary in the context of the audit, and the actuary's determination of materiality relative to audit materiality.
8. Accordingly, the IAASB Steering Committee agreed that some IAASB involvement in the development of the paper would be appropriate to address any misunderstandings or inconsistencies that it may include with regard to the relevant concepts or principles in the ISAs. Further, the IAASB Steering Committee agreed that there may be merit in expanding some of the considerations in the paper from an audit perspective to provide better insight into the role of auditors in their relationships with actuaries and insurance supervisors.

Proposal

9. The short timeframe in which the IAIS expects to finalize the paper (i.e., by June 2009) likely precludes full deliberation and formal due process by the IAASB. Formal IAASB consideration would also not be warranted as it would not appear appropriate to seek to include the paper in the authoritative literature of the IAASB² for the reasons mentioned above.
10. Subject to the IAASB's views, the IAASB Steering Committee agreed that:
 - (a) A small working group be appointed comprising two IAASB members and two external practitioners from the firms with experience in insurance industry audits, charged with:
 - (i) Reviewing the IAIS paper for consistency with the ISAs and audit practice;
 - (ii) Providing relevant input and insight to the IAIS in the development of its paper; and

² The Basel Committee, in its December 2008 Paper "External Audit Quality and Banking Supervision," has expressed the wish to participate with the IAASB when it redrafts/updates IAPS 1004 and IAPS 1006, "Audits of Financial Statements of Banks." The IAASB Chair has noted that some concerted dialogue among IAASB, IAIS and the Basel Committee on this matter might be helpful insofar as communication between auditors and supervisors is concerned.

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- (iii) Identifying an appropriate form and wording of IAASB endorsement for the paper; and
 - (b) IAASB involvement be limited to briefings from the working group, and approval of the form and wording of the endorsement.
- 11. IAASB staff will seek the IAASB's agreement of the way forward, but not its consideration of, and input on, the paper, at the March 2009 IAASB meeting.

Action Requested

- 12. The Representatives are asked for their views on the IAASB's involvement in the development of the IAIS issues paper, and whether there are any other matters that the IAASB should consider in determining the way forward.

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

International Auditing Practice Statement (IAPS) 1004, "The Relationship Between Banking Supervisors and Banks' External Auditors"

[See attached Word file](#)