



## Audit Support Made Simple



### Actuarial Solutions

making it simple®

The core business of ASI is consulting, actuarial and pension administration services for sponsors and administrators of defined benefit registered pension plans as well as consulting on the governance and plan design of all types of capital accumulation arrangements. As a result, ASI has accumulated significant experience with respect to the proper administration of a registered pension plan and in particular the actuarial and accounting standards that apply to the valuation of defined benefit plans.

Periodically we are called upon to express an opinion on the work of a third party with respect to a pension plan or retiree health plan for which we are not directly involved. ASI actively seeks these review assignments where there is no conflict of interest.

### Audit Support

The financial statements of many organizations include liabilities (and sometimes assets) relating to obligations arising in the future, such as pension and retiree health promises. The value for these obligations is most often determined by an actuary using methods and assumptions which are 'within the range of accepted actuarial practice in Canada'.

In auditing financial statements, auditors find themselves having to judge these obligations as well as the calculations and the work of their counterpart actuarial professionals. In the past, the attention paid by auditors to these reviews have been uneven, on one end being rigorous examinations supported by independent actuaries and at the other end complete acceptance of the work of a professional in another discipline.

Through time, the accounting profession has recognized its duty to scrutinize all of the components of an organization's financial statements including values calculated by actuaries. In response, the accounting profession, through its audit standards, has sought to tighten the quality of review and acceptance of management's reporting of these actuarial obligations.

In January 2011, The Canadian Institute of Chartered Accountants and the Canadian Institute of Actuaries jointly published Audits of Financial Statements that Contain Amounts that Have Been Determined Using Actuarial Calculations. This guideline references the CICA's CAS 620: Using the Work of an Auditor's Expert and the CIA's Standards of Practice. The intent of this guideline is to provide a framework for cooperation between auditors and the actuaries that they directly engage for the purpose of auditing the work of management's actuaries.

Actuarial Solutions Inc. (ASI) is an independent actuarial firm with expertise in pension and retiree health programs. ASI serves as actuary directly to a number of organizations that sponsor these programs. In addition, as a result of our independence, ASI also acts as a reviewer of actuarial work prepared by other actuaries. In these assignments, ASI is most often engaged by auditors in order to clearly demonstrate that the advice being provided to the auditor is not influenced by management. Although ASI's fees are generally paid by the auditor, the fee is most often included in the overall audit fee such that each client of the auditor remains responsible for cost of the audit support required by its unique programs.

Recognizing that there is always a trade-off between the cost of any audit review work and the perceived benefit, ASI has developed three levels of audit review commonly undertaken by auditors.

The following table provides an outline of these levels as well as suggestions under what circumstances that each level might be most appropriate. Fees for each level of review will depend upon the number and complexity of the underlying programs.

Level	Review of Assumptions	Review of Results	Review of Rationale	Uses	Report
Level 1	Review assumptions compared to general practice	Review of report in detail – confirm general consistency with GAAP – high-level review of results based upon data and plan summary		Audit rigor – true independence of auditor and reporting actuary	1 to 2 page letter
Level 2	Review assumptions and test for appropriateness	Level 1 review as well as detailed checking of sample lives to assess accuracy of actuarial calculations		Material obligations and/or unfamiliar relationship with reporting actuary	2 to 4 page letter
Level 3	Review assumptions and test for appropriateness	Level 2 review as well as obtain full membership data and independently verify results	Interview management and/or actuary  Review rationale provided for assumptions selected	Material obligations with significant risks if obligations are misreported and/or concern over experience of reporting actuary	TBD

It is always challenging for auditors to add external provider fees once an audit fee commitment has been made. As a result, we are working with auditors proactively to define their audit support needs and to provide an appropriate fee range or fixed-fee budget for the work so that the audit engagement can be both a success and on budget.

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