

**From:** [Ken Lining](#)  
**To:** [Comments](#)  
**Subject:** Staff Consultation Paper No. 2015-01, The Auditor's Use of the Work of Specialists  
**Date:** Tuesday, July 21, 2015 5:43:39 PM

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Dear Members of the PCAOB:

Thank you for inviting me to participate as a panelist in the June 18<sup>th</sup> SAG meeting.

I want to re-iterate my responses to the requested questions from the Staff Consultation Paper that were provided on the last page of my submitted remarks.

Q-6b: Does Figure 1 in Section II.A accurately describe the activities for which an auditor uses the work of a company specialist?

Yes, agree that a qualified actuary should calculate the pension & OPEB obligations

Q-8a: If auditor has access to specialist's methods (or models), is the access sufficiently detailed for auditor to obtain sufficient evidence?

Actuaries generally utilize proprietary valuation systems; however, they may provide illustrative models to auditors in some instances

Q-8b: If auditor does not have such access, how does auditor obtain sufficient appropriate audit evidence...?

More typical situation so the auditors will generally review selected items, e.g., data counts, asset statements, year-to-year reconciliations of benefit obligations & assets, variances in actual vs. expected benefits paid, present value of projected cashflows

Q-14: Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist...?

Yes, and note that actuaries frequently are requested to certify to this information

Q-15: How do auditors obtain understanding of assumptions & methods used by a company specialist?

Company specialist actuaries typically invest time helping auditors understand the material effects of various assumptions/methods & sensitivities to changes

Many of the large auditing firms employ in-house actuaries

Also, to expand somewhat on my remarks to Q-15 (above), I would like for the PCAOB to consider the following additional comments (some of which I made during the follow-up Q&A), which emphasize how the auditors often employ their own specialists in reviewing the work of actuaries:

- As noted on page 30 of the staff consultation paper, "[i]n cases when the auditor does not possess the specialized knowledge or skill to perform those more rigorous procedures, the auditor might need to employ or engage his or her own specialist." This would generally be the case in a review of a company's obligations for pensions and other postretirement

benefit plans. Many of the large auditing firms employ in-house actuary specialists or engage actuary specialists. These auditor's specialists generally review the methods, assumptions, data, etc. used by the company's actuary specialist to ensure that they are reasonable and appropriately documented. They also provide the audit engagement team with a detailed report summarizing their review and conclusions. The staff consultation paper does not appear to specifically address this situation where both the company and the auditor use their own specialists, but it is a very common situation when auditors review companies' obligations for pensions and other postretirement benefit plans. The use of auditor's specialists may be less common among smaller auditing firms. Auditing firms that do not currently employ or engage actuary specialists might need to do so under revised standards.

- In determining what level of testing the auditor should perform on information provided by the company's specialist, it is important to establish appropriate limits on the amount of testing required so that the testing is not unduly burdensome. For example, in reviewing a company's obligations for pensions and other postretirement benefit plans, it would be excessive to require the auditor to fully reproduce the work of the company's specialist. In addition, the auditor would generally not possess the necessary expertise to do so. Instead, it would be more appropriate to require the auditor (or their specialist) to evaluate the reasonableness of significant assumptions and appropriateness of methods used by a company's specialist.
- In a situation where the auditor's specialist is reviewing information provided by the company's specialist, the auditor's specialist should perform testing sufficient to confirm whether the methods, assumptions, and results are reasonable. This can be accomplished by reviewing appropriately documented actuarial communications provided by the company's specialist, testing census data and assumptions, etc. and should not require the auditor's specialist to fully reproduce the company's specialist's work.

Thank you again for this opportunity to provide comments into this important process. Please let me know if you have any questions.

Regards,

Ken

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