

AICPA Issues New Guidance

Darcie Truttmann, Senior Consulting Actuary for Pinnacle Actuarial Resources, said that new guidance from the American Institute of Certified Public Accountants guidance could impact the working relationship between actuaries and auditors. “I think that there will be more communication and hopefully it just becomes a more collaborative process,” she said. Following are excerpts from an interview.



Darcie Truttmann

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“Sometimes, auditors will get information about changes in the company and the actuary won’t, or vice versa. Now, the hope is that everybody gets all of the information.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with Darcie Truttmann.

What are the main takeaways of the AICPA’s new guidance for auditors relying on the work product of actuaries?

The major change is that, going forward, management needs to understand and support why they’re selecting the reserves they are, particularly when held unpaid liabilities are different from the actual central estimate. That is the point in the process when the auditor will most likely ask questions. Management needs to know the key drivers that go into the estimate. They must be able to explain the estimate and explain if and why they are deviating from the central estimate.

How will the new guidance further encourage management’s confidence in the reliability and credibility of actuarial estimates?

It should not directly affect how an actuary does their analysis. It may, however, indirectly impact our work as it will mean that actuaries get more open and direct communication from management. The hope, at least from my perspective, is that we will even more acutely understand the exposures and risks that we’re estimating. It may mean that we will use different selections or methods based on the greater amount of information we’re collecting from management. That naturally results in the need to communicate more because management will need to fully understand what’s going into an actuarial analysis. And, if there are changes in how reserves are set, the actuary will have that information sooner in the process. Actuaries can then select the methodology accordingly. We can communicate more information to management to help them support the estimates on their balance sheet.

What if the data provided by the organization does not support the estimate?

That will cause an inaccurate estimate. Good communication in this, and all instances, is so critical. Communication allows the actuary to fully understand risk and select the appropriate and correct benchmark correctly. The hope, once again, is that the new guidance will encourage that type of communication and actuaries

can better understand the organization’s risks and exposures so that these types of situations become rarer, and that the benchmarks correctly reflect risks, and our estimates will be more accurate. Even more accurate than they already are.

What are key considerations for auditors when evaluating management’s selected point estimate for unpaid claim liabilities, especially if they deviate from actuarial estimates?

The auditor should look for those things in the data that have changed, and that would lead management to diverge from the central estimate. As an actuary, we are looking for an organization’s estimate to arrive within our range. An auditor wants to dig deeper to understand if it’s not the central estimate. Many considerations can impact management’s selection of a figure higher in the range. If the organization has had a lot of adverse development in multiple years in a row, for example, an actuary may adjust estimates and selections and assumptions based on that development.