



Institute
and Faculty
of Actuaries

Acting as the auditor's expert in UK insurance audits:

A Guide for Members

by the Regulatory Board

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This Guide imposes no new obligations upon Members or their employers. Rather the Institute and Faculty of Actuaries ("the IFoA") hopes that the Guide will be a useful tool for its Members.

This Guide does not constitute legal advice, nor does it necessarily provide a defence to allegations of Misconduct (as defined in the Disciplinary Scheme). While care has been taken to ensure that it is accurate, up to date and useful, the IFoA will not accept any legal liability in relation to its contents.

1. Introduction

- 1.1. This guidance has been introduced following the withdrawal of the requirement to hold a Practising Certificate for the role of Reviewing Actuary. It is aimed at those actuaries acting as the auditor's expert for life insurance audits, but may be useful in a broader context to actuaries acting in the capacity as an auditor's expert in other areas.
- 1.2. When carrying out an external audit of the Solvency and Financial Condition Report (SFCR) (see SS11/16) and to satisfy ISA (UK) 220 - Quality Management for an Audit of Financial Statements¹, the independent auditor is required to gather *"sufficient appropriate evidence to provide an overall reasonable assurance opinion that the public disclosure in scope complies in all material respects with PRA rules and Solvency II Regulations"*.
- 1.3. The auditor has sole responsibility for the audit, however they may determine that the work of other experts is required to assist in obtaining sufficient evidence to support the audit and this is where they may appoint an actuary as one of their experts.
- 1.4. As set out in ISA (UK) 620², it is the auditor's responsibility to determine whether they require the work of an expert to inform the audit. If they determine that an expert is required, it is also their responsibility to evaluate that expert's competence, capabilities and objectivity. This is reinforced in the Prudential Regulation Authority's (PRAs) Supervisory Statement (SS) 11/16³ and includes the use of actuaries in an audit.
- 1.5. Although it is the auditor's responsibility to determine whether they require the work of an expert, the PRA does expect, as a minimum, that when an external audit is being carried out for a firm that writes life insurance business, the auditor will consult a suitably qualified actuary who is independent of the firm being audited.
- 1.6. An actuary who acts as the auditor's expert plays an important public interest role and requires significant actuarial knowledge and expertise.
- 1.7. Please note, the term "you" is used throughout this document to refer to Members.
- 1.8. This document is non-mandatory guidance material; it imposes no obligation upon you over and above those embodied in the Actuaries' Code or the IFoA Standards Framework. Its purpose is to support Members' who are acting as the auditor's independent expert.
- 1.9. This document does not constitute legal advice. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA will not accept any legal liability in relation to its content.

¹ <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-220/>

² <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-620/>

³ <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/solvency2-external-audit-of-the-public-disclosure-requirement-ss>

2. General considerations

- 2.1. If you are approached to act as an auditor's expert, it is important to first consider whether you have the appropriate level of relevant knowledge and skill for the firm being audited before accepting the role. Further details of specific areas of skill and knowledge to consider for such a role are detailed later in this guidance.
- 2.2. As part of this, you may also take into consideration your ability to consult with others for advice, and the support you will have in carrying out the role.
- 2.3. Once you have determined you have the competence and capabilities to carry out the role, you should consider, to the extent it is appropriate and proportionate, whether it is necessary to have a discussion with your immediate predecessor, if any, regarding the role.
- 2.4. As the role will require you to carry out your work in a manner consistent with the requirements of the auditor, you should ensure you have a general knowledge of the relevant audit standards⁴⁵.
- 2.5. If you are supporting a Member who is acting as the auditor's expert, you should ensure that you are aware of the general considerations of those role holders when providing such support.

⁴ <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/>

⁵ <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-540/>

3. Role clarity

- 3.1. It is the auditor's responsibility to determine the scope of the audit. You should discuss and agree your duties, and the manner in which they should be carried out, with the auditor. At this stage, it is also normal practice for you to input to the audit planning process in which consideration will be given to:
- the scope of the work, budget and materiality;
 - the key risks relevant to the actuarial scope of work;
 - the terms of engagement between you and the auditor, if relevant;
 - independence;
 - communication and reporting protocols both with the audit team and with the insurer;
 - highlighting and discussing key judgemental areas;
 - what form the auditor's review of the work, and your conclusions, will take
- 3.2. Although it is the auditor's responsibility to determine the scope of the audit, if the scope is narrower than one you expected, you should advise the auditor of the implications. It is also important to set out any limitations in scope in your conclusions.
- 3.3. In respect of the items within scope, you will be expected to advise the auditor on the methods and assumptions used by the firm and, in particular, on whether they comply with the relevant regulatory requirements (which includes the requirements in respect of generally accepted actuarial practice⁶)
- 3.4. It is therefore important during the planning process to establish the approach the auditor will be taking to auditing items that are important inputs to the actuarial valuation such as assets, policy data, results of experience investigations and expense analysis.
- 3.5. Attention should also be paid to ensuring the valuation model is working robustly and any changes to it have been carried out in a controlled manner with review and sign-off.

⁶https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018_V2_16April2019.pdf

4. Competence

- 4.1. As described above, acting as the auditor's expert requires significant actuarial knowledge and expertise. It is therefore important to consider whether you have the competencies required for the role, and that you have maintained those competencies to a sufficient level to carry out the role for the firm being audited.
- 4.2. You will have to be confident in assessing whether there is sufficient evidence to demonstrate that the actuarial assumptions are reasonable for the intended purpose. Therefore, a sound understanding of the methods and assumptions used, and judgements exercised, by the firm, along with an understanding of market practice and developments in the wider environment, is vital to carrying out the role successfully.
- 4.3. You will also require a sound understanding of other key technical areas, including the risks the firm is exposed to and the matching of assets and liabilities. Where relevant to the audit, an understanding of the capital requirements and the pricing basis will also be needed.
- 4.4. In addition, maintaining an awareness of relevant external factors that may influence the business, along with an understanding of the different product lines sold by the firm is key to ensuring you are fully informed for the role you are carrying out.
- 4.5. Aside from the technical knowledge, other competencies that are important for the role include applying key judgements and the ability to challenge the views, decisions or actions proposed by the auditor, or senior individuals within the firm, such as the CFO and Chief Actuary.
- 4.6. Where you may disagree with the judgements made by the Chief Actuary due to insufficient evidence, assessing the materiality of the differences and requesting further data evidence from the firm may be helpful in resolving any disagreements or in validating your conclusion.
- 4.7. You may also wish to consult another suitably qualified actuary or, if appropriate, seek an independent review of your work. Where a disagreement occurs, you should always discuss with the auditor at the earliest opportunity. You should also consider the requirements of APS X2⁷ and whether, to the extent it is appropriate and proportionate, work review should be applied to the actuarial work you have carried out.
- 4.8. In line with Technical Actuarial Standard (TAS) 100, and reinforced by TAS 200⁸, it is good practice to keep a clear written record of your decision-making processes. This can be helpful when responding to a challenge or query, particularly where the matter is of some significance or importance, when particular weight is being placed on your advice, or when you wish to record a difference in opinion.
- 4.9. The Actuaries' Code (the "Competence and care" principle) and supporting non-mandatory guidance cover the duty of acting with competence and care and provides details of the associated regulatory requirement.

⁷ <https://actuaries.org.uk/document-library/standards/standards-and-guidance/actuarial-profession-standards-aps/aps-x2-review-actuarial-work/>

⁸ <https://www.frc.org.uk/library/standards-codes-policy/actuarial/technical-actuarial-standards/>

5. Independence

- 5.1. Independence is fundamental to the role and the auditor will assess your objectivity prior to making the appointment. Ensuring you have a clear understanding of the auditor's independence requirements and discussing those with them at an early stage is imperative.
- 5.2. As part of the discussions on the auditor's independence requirements, it is likely you will be required to provide written confirmation of your independence, including confirmation that neither you, nor your organisation, have any conflicts of interest.
- 5.3. It is therefore important that you take reasonable steps to ensure you are aware of any relevant interests that might create a conflict, from both your own and your organisation's perspective.
- 5.4. The Actuaries' Code (the "Impartiality" principle) and supporting non-mandatory guidance provides details of the regulatory requirements associated with conflicts of interest.

6. Confidentiality

- 6.1. Respecting confidentiality is a key consideration in carrying out any type of actuarial work and when advising the auditor, you will need to observe specific confidentiality requirements, which will include⁹:
- The confidentiality provisions of relevant ethical requirements that apply to the auditor
 - Additional requirements that may be imposed by law or regulation, if any
 - Specific confidentiality provisions requested by the entity, if any
- 6.2. The “Integrity” principle of the Actuaries’ Code and supporting non-mandatory guidance covers the duty of confidentiality and provides details of the associated regulatory requirements.

⁹ <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-620/>

7. Communications

- 7.1. Effective communication is key to ensuring the information you are providing can be relied upon and will allow the auditor to make informed decisions.
- 7.2. As explained in ISA (UK) 620, effective communication will ensure the nature, timing and extent of your procedures are aligned with other work on the audit. Therefore, a conversation with the auditor to consider and agree your procedures should be carried out at an early stage. It is also helpful at this stage to agree the form of your reporting.
- 7.3. When presenting your information to the auditor, you should ensure the information is clear and concise and that it is set out in a way that is accurate, impartial, and in accordance with relevant professional standards. You should also make sure to include clear explanations for any limitations or uncertainties in your conclusions.
- 7.4. Clear communication is essential in ensuring the auditor has a sufficient understanding of the work you have carried out and that they are able to evaluate that work for their purposes.
- 7.5. The Actuaries' Code (the "Communication" principle) and supporting non-mandatory guidance provides detail of the regulatory requirements associated with communicating appropriately.

8. Professional and Regulatory Support Helpdesk

- 8.1 If you would like the benefit of views from our experienced panel members, on a confidential basis, on matters relating to the application of professional standards or ethical dilemmas, please [contact us](#).

9. Further questions and information

- 9.1 We would be pleased to receive any comments on this document. Comments should be sent to: regulation@actuaries.org.uk.