



The Actuarial Profession

making financial sense of the future

GIRO 2011 - Audit is a mandatory cost...so get the most out of it
Robert Andrews, KPMG LLP



**Audit is a mandatory
cost...so get the most
out of it**

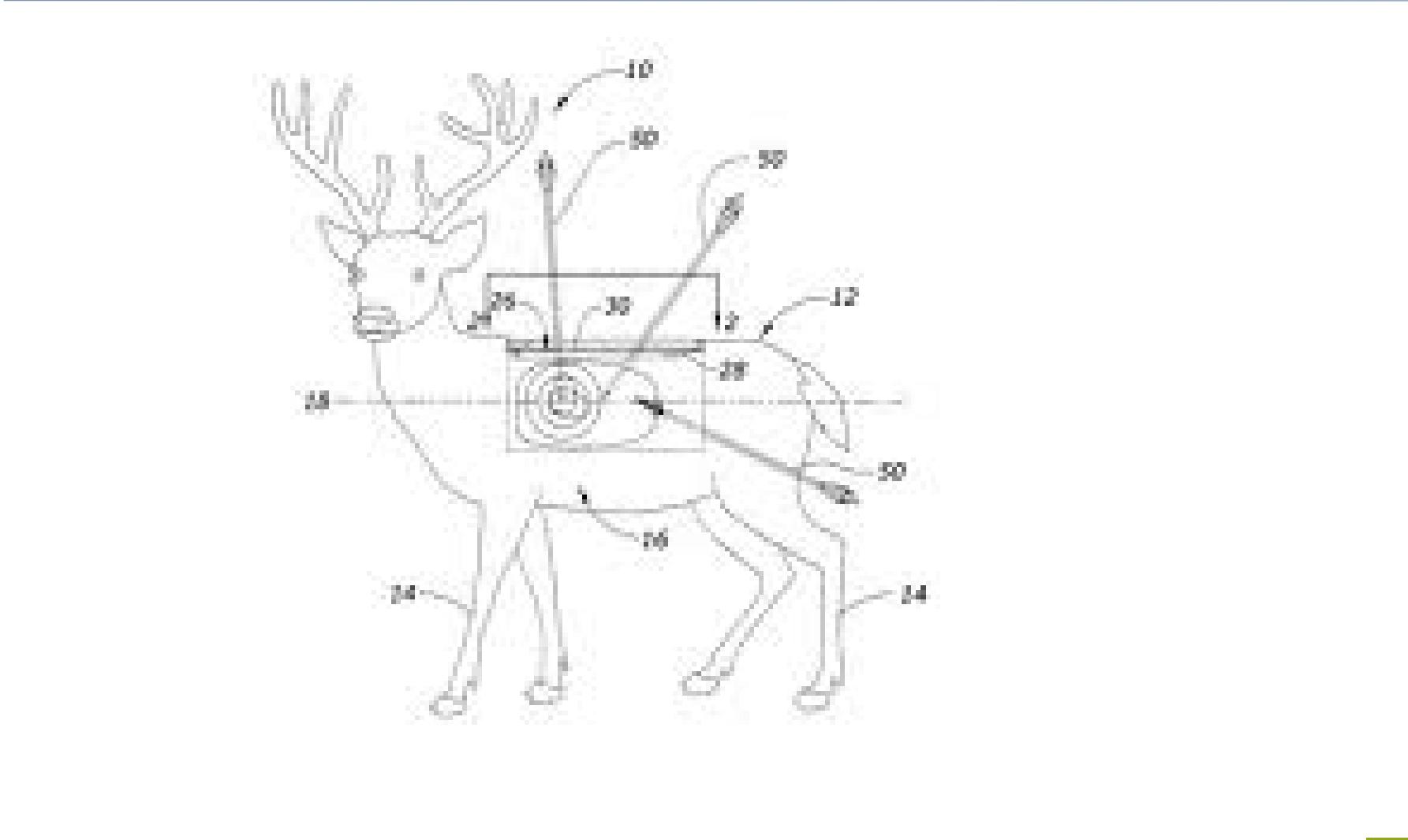
13 October 2011

Agenda

- What do auditors actually do?
- What can I get out of it?



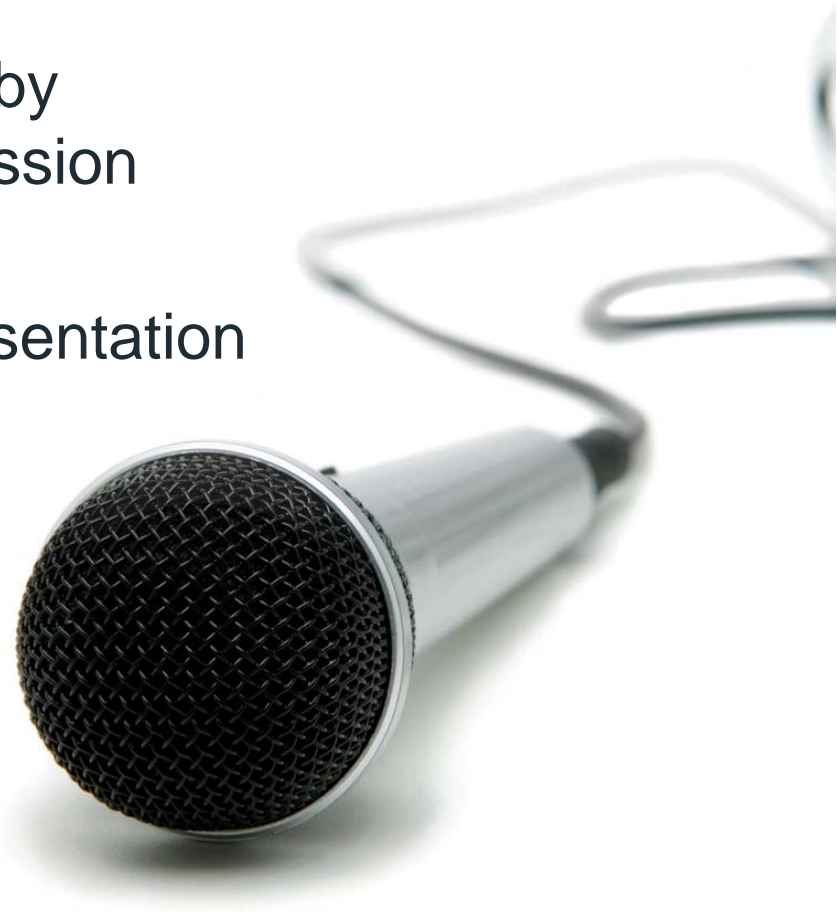
The speaker



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



Overview

Topics	
Background	
Purpose	Scope, law, public expectation
Reality	Budgets, deadlines, committees, reports
Methods	Substantive and control based methods
Zeitgeist	Governance, challenge, validation
Discussion topics	
The golden triangle	Reserving, claims, underwriting
External perspectives	Benchmarks and business processes
The future	Goodbye management margin?

Why audit? (Some ideas)

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- A mechanism which promotes trust in capital markets

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- A legal requirement
- A mechanism which promotes trust in capital markets
- A way for the board to keep an eye on management
- A standard against which management can measure itself
- A practical procedure which provides an independent outsiders view of the financial affairs of the business

What is an audit?

A reasoned opinion:

“... an examination, on a **test basis**, ...”

“... **significant** estimates and judgements made by the directors ...”

“... **consistently applied** ...”

“**sufficient evidence** to give **reasonable assurance**”

“**material misstatements**”

“... **true and fair view** ...”

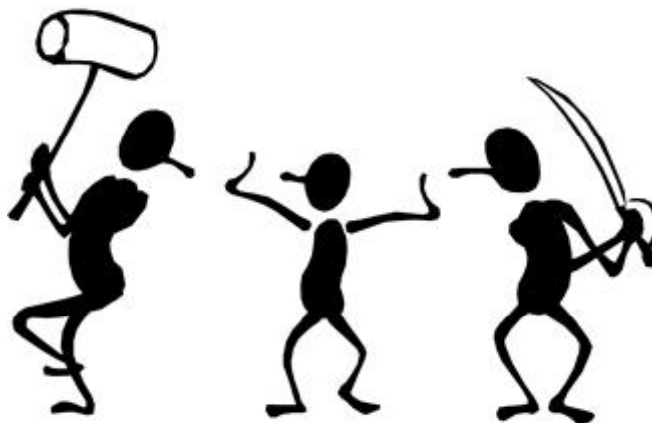


The expectations gap



- Limited scope:
 - Test based opinion on financial statements
 - Financial reporting standards narrow scope
- User expectation outruns reality:
 - Genuine uncertainty
 - New facts cause revision to estimates
 - No opinion on future

Reality



Audit context – client taxonomy

Dangerous - “Finite reinsurance? Never heard of it”

Desperate - “Triumph of hope over experience”

Dazed or deluded – Unaware / misunderstand trends

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Dangerous - “Finite reinsurance? Never heard of it”

Desperate - “Triumph of hope over experience”

Dazed or deluded – Unaware / misunderstand trends

Most clients:

Decisive – Informed, consistent application of reserving policy

Deliberate – Informed, manage margins for convenience

Audit context – stakeholders

Stakeholder	Deliverable
Internal stakeholders: <ul style="list-style-type: none">- The board- The audit committee- CFO, chief actuary- The business	Management letter Audit memo
External stakeholders: <ul style="list-style-type: none">- Current shareholders- Banks- Potential investors- Counterparties- Regulators- Analysts rating agencies	Audit opinion

Audit context – working papers

Requirement to document:

- Professional standards
- Legal protection

Working papers should evidence:

- Risk assessment
- Audit plan which addresses risks
- Testing carried out
- Results
- Basis of opinion

Audit context – role of actuarial support

Responsibility for opinion rests with audit partner:

- Actuarial support informs, audit forms own judgement on how much reliance to place
- Formally, role of actuarial support is analagous to any other specialist (for example, a chartered surveyor)

Actuarial wrinkle – Independent reserve review

- Legal reliance vs comfort

Assurance methods

Testing approach	Example
Substantive - Tests of detail - Analytical review	Re-projection of material classes Investigate A v E using client model
Controls based - Design - Implemented in practice	Review of effectiveness of policies and procedures (eg a claims watchlist, peer review of projections) Review evidence of control process in action (exception reports, evidence of peer review, meeting minutes)

Assurance methods – systemic overview

For example:

- who is responsible for reserve setting?
- what information do they have to perform this role?
- how much time is available for them to ask questions?
- how much time is available to make decisions?
- are they appropriately experienced?

Overarching topic of reserving governance

Audit context – touchpoints

Formal report to board and audit committee

Feedback meetings – Auditor to CFO / chief actuary

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Investigations

- Claims – large losses, trends, case reserve setting
- Underwriting – pricing trends, business mix, T&C's

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Clarification meetings – actuary to actuary

Other third parties – especially independent reserve reviews

What can the auditors do that I can't?

Access to the business

Access to audit committee / board

Access to claims

Access to underwriting

Access to senior management

What can the auditors do that I can't?

Compare market practice:

- Issue specific benchmarks

- Compare reserving techniques

- Compare processes

- Compare resources applied to reserving

What can the auditors say that can help me?

Comparison with market practice:

Governance

Processes

Resources

Priority setting:

Things that worry me

“Tactical” information I would like to see

➤ Use the planning process well

The future

Now:

- We can agree to disagree

Future?

- My best estimate is better than yours (thanks to SII, IFRS4)

Potential issues:

How can management manage their reserve margins?

How can disagreements be resolved if these require adjustment?

What changes to the process are required?

Thankyou

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