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Internal Audit Expectations

Colin Swan – LBG Group Audit

06 October 2014



Agenda – Internal Audit Expectations

- Introduction / Re-cap
- Internal Policies & Governance
- TAS
- Documentation Specifics
 - Governance
 - Content
 - Quality
 - Process Flows
- Updates to IIA Code
- Link with External Audit



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Introduction / Recap

- So we have covered model documentation from the PRA perspective as well as the CA2 theory, how does this relate to Internal Audit expectations?
- What Internal Audit are trying to achieve – “to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively”.
- **There are no significant additional requirements to satisfy Internal Audit.** Contrary to myth we do not require you to create significant additional documentation just for our purposes.
- There will be slight differences in how Internal Audit functions operate between companies but all will have a Risk Management Framework with many using the 3 lines of defence model.
- Internal Audit is the 3rd line and we conduct individual audits based on a risk assessment and complete both a design and operational effectiveness reviews.



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Internal Policies & Governance

- Each of you will have your own internal Policies & Governance that apply.
- As well as wider model documentation requirements, such as SII and EUCs etc.
- We would look to check that you have followed any internal guidance on documentation write-up, such as use of templates etc.
- We look for models to be clearly documented and easy to follow – think of a knowledgeable 3rd party.



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TAS

- It is each of our own responsibilities to ensure that we adhere to the TAS requirements around modelling and documentation.
- There is no requirements in TASs other than good sensible model documentation;
 - Judgements;
 - Documentation – including purpose, be clear and allow a technically competent person understand process and judgements;
 - Clearly documentation limitations; and
 - Have controls in place with results being documented.
- Internal Audit will generally look for the completion of an internal checklist detailing compliance with TAS.



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Documentation Specifics

- Governance
 - The first section of your model documentation is probably the most important.
 - Should be clear articulation of:
 - Purpose and scope of the documentation;
 - Contents page (with expected sections) – with page numbers refreshed;
 - Who owns the model and documentation;
 - Version control – always a little suspicious if version 0.1 or 1.0;
 - Who has reviewed and approved the model documentation and when. Is there agreed frequency of review?;
 - References to other applicable documentation, policies and regulations; and
 - Weaknesses / caveats – this is actually a positive thing.



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Documentation Specifics

- Content
 - We will look for an Exec summary and read this.
 - Identification and documentation of controls over modelling process
 - Volume, is it too much or too little.
 - Models will require hand-ins and offs, these should be listed with owners and dates if applicable.
- Quality
 - Quality is a really easy indicator to use in terms of completeness.
 - Please check for:
 - Typos, “XXX”, “TBC” and references to left colleagues as just indicates a lack of care and attention;
 - Page numbers correct, draft titles and water marks removed; and
 - Links to documents look right, for example, not from a personal drive.



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Documentation Specifics

- Process Flows
 - Process flows are great as they describe a complex process in a very easy to understand way.
 - Remember that everyone might not have access to Visio.
 - Use of PowerPoint, Word or Excel might be easier to produce and update flows.
 - An easy way to identify controls throughout your processes are to reference them on your process flows.



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Update to IIA Code

- All Internal auditors must adhere to the Institute of Internal Auditors Code
 - This sets out guidance on how we as internal auditors should operate to allow us to provide assurance to our boards that all significant risks in the business are identified and appropriately reported as well as assessing whether they are adequately controlled and challenged.
- The code was substantially updated in July 2013 requiring audit teams to contain specialists to ensure they have appropriate knowledge and expertise to allow us to fulfil the requirements under the code.
 - This has resulted in increased representation by actuaries in internal audit functions.



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Link with External Audit

- External Audit will generally cover the same testing each period due to their requirements whereas Internal Audit scope will change year on year based on risk identification within the business.
- External Audit is heavily focused on Financial Statement materiality whereas Internal Audit are more interested in the governance and strategic decisions taken as a result of the modelling output.
- Therefore, there will be differences in approach and work performed.
- External Audit can place reliance on Internal Audit.



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Questions

Comments



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