

## GN42: The Reviewing Actuary

### *Classification*

Practice Standard

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES**

### *Definitions*

Defined terms appear in italics when used in the standard.

<b>Reference</b>	<b>Definition</b>
actuarial function holder	A Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by (or by the FSA for) a <i>firm</i> in accordance with SUP 4.3.1R or 4.3.3R to perform the role specified in SUP 4.3.1R(1)(a)
firm	An insurance company or friendly society in respect of which a <i>reviewing actuary</i> is engaged.
FSA	Financial Services Authority
PCS	Professional Conduct Standards of the Faculty of Actuaries and Institute of Actuaries
Realistic basis firm	A <i>firm</i> required to perform a realistic valuation by PRU
reviewing actuary	An actuary independent of the <i>firm</i> from whom IPRU(INS) 9.35(1A) requires the <i>firm</i> 's auditor to take appropriate advice
With-profits actuary	A Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by (or by the <i>FSA</i> for) an insurance company in accordance with SUP 4.3.1R or 4.3.3R to perform the role specified in SUP 4.3.1R(1)(b)

The following terms are used with the same meaning as in *FSA* rules:

*actuarial investigation*

*long-term insurance fund*

*Principles and Practices of Financial Management*

In addition, the following abbreviations are used for sections of the *FSA Handbook*:

IPRU(INS)	Interim prudential sourcebook for insurers
IPRU(FSOC)	Interim prudential sourcebook for friendly societies
PRU	Integrated Prudential sourcebook
SUP	Supervision manual

***Legislation or Authority***

The Financial Services and Markets Act 2000

The *FSA Handbook of Rules and Guidance* (“*FSA Handbook*”)

***Application***

*Reviewing actuaries* of UK authorised insurance companies and friendly societies writing long-term insurance business.

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***Status***

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**Version**

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1.0

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from which time it ceased to operate (and cannot, with effect from that time, be relied upon) as guidance issued by the Profession. Members needing to comply with professional standards on matters covered by this Guidance Note should in future consult the standards published by the Board for Actuarial Standards.

**1 General**

- 1.1 In this standard, requirements of legislation, accounting standards or *FSA* rules and guidance are specifically referred to as such. Any other guidance is that provided additionally by the profession. The inclusion of summarised references to, or quotations from, particular provisions of the *FSA Handbook* is not a substitute for referring to the *FSA Handbook*.
- 1.2 It is a professional requirement that a *reviewing actuary* must possess a practising certificate relevant to the type of business written by the *firm* in respect of which he or she acts.
- 1.3 GN39 is applicable to *reviewing actuaries*.
- 1.4 The *reviewing actuary* must also be familiar with the contents of GN40, GN44, and, if applicable to the *firm*, GN45 and GN47.
- 1.5 To the extent that he or she works as part of the audit team, the *reviewing actuary* will also have to carry out his or her work in a manner consistent with the requirements of the auditor, who will be his or her client. As a result, he or

she is likely to have to be familiar with all or parts of the audit guidance which is listed in the Appendix. The *reviewing actuary* must carry out his or her duties in a manner as agreed with the client, and the *PCS* applies, but compliance with audit guidance is not a requirement of this guidance note itself.

## 2 The Role of the Auditor

2.1 Paragraph 4 of Appendix 9.6 of IPRU(INS) requires that the auditor's report under IPRU(INS) 9.35 states whether in the auditor's opinion:

- “(a) the documents referred to in rules 9.12, 9.13 and 9.14, together with Forms 40 to 45, 48, 49, 56, 58 and 60 and the statements, analyses and reports annexed pursuant to rules 9.24 to 9.27, 9.29 and 9.31 have been properly prepared in accordance with the Accounts and Statements Rules and PRU; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation (as set out in the valuation reports) appropriately reflect the requirements of PRU 7.3 and 7.4.”

2.2 The auditor is required to obtain and pay due regard to advice from the *reviewing actuary* “to the extent that any document, Form, statement, analysis or report to be audited under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation” (Paragraph 4(b) of Appendix 9.6 of IPRU(INS)). The scope of the *actuarial investigation* is set out in IPRU (INS) 9.4 and includes:

- “(a) determination of the liabilities of the insurer attributable to its long-term insurance business;
- (b) a valuation of any excess over those liabilities of the assets representing the long-term insurance fund or funds and, where any rights of any long-term policy holders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of those parts; and
- (c) for every long-term insurer which is a realistic basis life firm, a calculation of the with-profits insurance capital component.”

2.3 IPRU (INS) 9.4 also requires valuation reports to be produced as part of the *actuarial investigation* and these are set out in IPRU (INS) Appendix 9.4 and 9.4A. These reports include the Resilience Capital Requirement (RCR), Long-Term Insurance Capital Requirement (LTICR), the Realistic Current Liabilities; the Present Value of Future Profit (or losses) of Non Profit Business written in the fund and “the amount of the present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying the most adverse scenario” (to the extent this is included).

- 2.4 Documents on which actuarial advice should normally as a minimum be obtained from the *reviewing actuary* by the auditor will therefore be Forms 18, 19, 48, 49, 56, 58 and 60, and the RCR on Form 9, the abstract of valuation report for both the realistic and regulatory valuation. More specific items include:
- a) mathematical reserves (Form 18 Lines 13 and 21)
  - b) LTICR (Form 18 Line 31)
  - c) RCR (Form 18 Line 32)
  - d) With-profits Insurance Capital Component (Form 18 Line 64)
  - e) With-profits Benefit Reserve (Form 19 Line 31)
  - f) Future Policy Related Liabilities (Form 19 Line 32 to 47)
  - g) Risk Capital Margin (Form 19 Line 65)
  - h) Implicit Items (Form 19 Line 12)
  - i) Present Value of In Force business (Form 19 Line 22)
  - j) Realistic value shares (Form 19 Line 13)
  - k) Realistic current liabilities (Form 19 Line 51)
- 2.5 Rule 5.1 (A) of IPRU(FSOC) requires Directive Friendly Societies to comply with the IPRU(INS) requirements in paragraphs 2.1 to 2.4 above.
- 2.6 The *reviewing actuary* must clarify the items in scope and advise the auditor of the implications if the auditor suggests a narrower scope.
- 2.7 The auditor will require work to be carried out in a manner consistent with auditing guidelines for the relevant industry sector. PN20 and PN24 deal with long-term insurance and therefore *reviewing actuaries* must be familiar with PN20 or PN24 as appropriate.
- 2.8 In some cases the *firm* may have received specialist advice or input from a third party firm of actuaries or other specialists, for example in relation to the valuation of options and guarantees. In such cases the *reviewing actuary* should discuss and clarify with the auditor the extent to which the *reviewing actuary* should place reliance on the advice of the third party firm. Where the third party advice or input is such that it could have a material effect on the results being reviewed, it is likely that the auditor will require the *reviewing actuary* to form his or her own view on the area in question and advise the auditor accordingly. If, in giving his or her formal advice and/or opinion to the auditor, the *reviewing actuary* has relied on the work of a third party firm in a material area without carrying out sufficient work to form his own view, then this should be made clear in his report to the auditor.

### **3 The Role of the *Reviewing Actuary***

- 3.1 The *reviewing actuary* is required to make a private report to the auditor on matters agreed with the auditor to be within the scope of work.
- 3.2 The *reviewing actuary* is required to be independent of the *firm*. The *reviewing actuary* must discuss the auditor's independence requirements and the *reviewing actuary* must then comply with them. For example, the *reviewing*

*actuary* must not be engaged or employed by the *firm* or have provided any assistance in preparing its financial statements.

- 3.3 When providing advice to the auditor, the *reviewing actuary* should ensure that it is clear when he or she is acting in a formal capacity as *reviewing actuary*.

#### **4 The Duties of the *Reviewing Actuary***

- 4.1 There is no guidance from the *FSA* on the nature of work to be carried out by the *reviewing actuary*. The auditor gives an opinion under IPRU(INS) 9.35 as set out in paragraph 2.1 above.

- 4.2 In respect of the items within scope, the *reviewing actuary* should normally (as a minimum) advise the auditor on the methods and assumptions used by the *firm*.

- 4.3 The *reviewing actuary* should also normally discuss with the auditors the audit tests that need to be carried out on the control environment. There are a variety of ways in which testing on the control environment can be carried out and the degree of testing may vary. The *reviewing actuary* should advise the auditor on the implications of the proposed approach to testing valuation controls.

- 4.4 Analysis of surplus, or other method of reconciling movement of liabilities, should normally be an important control to review.

- 4.5 The *reviewing actuary* must discuss with the auditor the approach that 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.

- 4.6 For a “*realistic basis firm*”, the *reviewing actuary* is also required to give an opinion that the realistic reserves have been properly prepared. This will require him or her to consider whether the assumptions made are consistent with the requirements of PRU 7.4. Apart from consideration of the experience assumptions (mortality, interest, tax, expenses, surrender rates etc.) the *reviewing actuary* will also have to consider whether the assumptions made about future bonuses and/or payouts are consistent with the requirements of PRU 7.4 and consistent with the *firm’s Principles and Practices of Financial Management*.

- 4.7 For the realistic basis the *reviewing actuary* would be expected to consult with the *with-profits actuary* as well as the *actuarial function holder*.

## 5 The relationship between the *reviewing actuary* and the auditor

5.1 The planning and engagement stage is important in clarifying assistance the *reviewing actuary* will provide to the auditor. At this stage consideration should normally be given to:

- the scope of the work and materiality;
- the terms of engagement between the auditor and the *reviewing actuary*;
- 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 conclusions of the *reviewing actuary* advising the auditor will take.

The *reviewing actuary* must carry out his or her work in line with the guidance of the *PCS* at all times, in particular where the *reviewing actuary* may feel that the auditor is not following his or her advice.

5.2 The *reviewing actuary* should be aware that auditors are required under the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001 to communicate certain matters to the *FSA* in specified circumstances. Briefly, these are matters of which he or she has, or had, become aware in his or her capacity as auditor of an authorised person or as auditor of a person who has close links with an authorised person. The circumstances in which this obligation arises are specified in regulation 2 of these regulations.

5.3 The *reviewing actuary* should normally agree protocols for timely reporting of issues to the audit team. The *reviewing actuary* must be aware that he or she does not have whistle blowing obligations and therefore does not have whistle blowing rights or protection.

5.4 The above guidance applies equally to cases where the *reviewing actuary* is employed by or a partner in the audit firm and where the *reviewing actuary* is employed by or a partner in a firm not related to the audit firm.

## **Appendix**

### ***Relevant Audit Guidance***

Auditing Practice Note 20 – The Audit of Insurers in the UK (“PN20”)  
Auditing Practice Note 24 – The Audit of Friendly Societies in the UK (“PN24”)  
APB Statement of Auditing Standards 210 – Knowledge of the Business  
APB Statement of Auditing Standards 220 – Materiality and the Audit  
APB Statement of Auditing Standards 230 – Working Papers  
APB Statement of Auditing Standards 240 – Quality control for audit work  
APB Statement of Auditing Standards 300 – Accounting and internal control systems and audit risk assessment  
APB Statement of Auditing Standards 400 – Audit evidence  
APB Statement of Auditing Standards 410 – Analytical Procedures  
APB Statement of Auditing Standards 420 – Audit of Accounting Estimates  
APB Statement of Auditing Standards 430 – Audit sampling  
APB Statement of Auditing Standards 440 – Management Representations  
APB Statement of Auditing Standards 520 – Using the Work of an Expert  
APB Statement of Auditing Standards 610 – Communication of audit matters to those charged with governance  
APB Statement of Auditing Standards 620 (revised) – The auditors’ right and duty to report to regulators in the financial sector  
Bulletin 2004/X - Supplementary Guidance for Auditors of Insurers in the United Kingdom

Note: the guidance listed above may be amended, replaced and/or supplemented from time to time. The *reviewing actuary* should ensure he or she refers to the latest version of each guidance document and any relevant related documentation.