

## GN42: The Reviewing Actuary

### *Classification*

Paragraphs marked (M) and in bold type are Practice Standard. The remainder of the guidance, marked (G) and in normal type, is Recommended Practice.

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

### *Purpose*

The FSA Handbook of Rules and Guidance requires a *firm* to ensure that its auditor takes advice from a *reviewing actuary* who is independent of the *firm*. This note sets out the professional requirements applying to reviewing actuaries and provides guidance on their role and responsibilities.

### *Definitions*

Defined terms appear in italics when used in the standard.

#### **Reference**

#### **Definition**

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 SUP 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
reviewing actuary	An actuary independent of the <i>firm</i> from whom IPRU(INS) 9.35(1A) or IPRU(FSOC) 5.11 (1A) requires the <i>firm's</i> 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) a <i>firm</i> in accordance with SUP 4.3.1R or SUP 4.3.3R of the <i>FSA Handbook</i> to perform the role specified in SUP 4.3.1R(1)(b)

The following terms are used with the same meaning as in the *FSA Handbook of Rules and Guidance*:

*actuarial investigation*  
*directive friendly society*  
*friendly society*  
*long-term insurance fund*  
*Principles and Practices of Financial Management*  
*realistic basis life firm*

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

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.

***Author***

Life Board

***Status***

Approved under Due Process

<b>Version</b>	<b>Effective from</b>
1.0	31.12.04
	<b>Adopted by BAS on 19.05.06</b>
2.0	01.06.06
	<b>Re-adopted by The Actuarial Profession on 01.12.08</b>

**1 General**

1.1 (G) 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 (M) **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 (M) GN39 is applicable to *reviewing actuaries*.
- 1.4 (M) The *reviewing actuary* must also be familiar with the contents of GN40, GN44, and, if applicable to the *firm*, GN45 and GN47.
- 1.5 (G) The *reviewing actuary* will 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 need a general knowledge of the audit guidance which is listed in the Appendix.
- 1.6 (M) The *reviewing actuary* must carry out his or her duties in a manner agreed with the client, and the *PCS* applies, but compliance with audit guidance is not a requirement of this guidance note itself.
- 1.7 (M) This guidance note applies both to cases where the *reviewing actuary* is employed by or a partner in the audit firm and where this is not the case.

## 2 The Role of the Auditor

- 2.1 (G) 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:

“(i) 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

(ii) 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 PRU 7.4.”

- 2.2 (G) 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 (G) 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 within their scope the Resilience Capital Requirement (RCR), 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 (G) Documents on which actuarial advice should normally as a minimum be obtained from the *reviewing actuary* by the auditor will therefore be any Forms 18, 19, 48, 49, 56, 58 and 60, and the RCR in Form 2, the abstract of valuation report for both the regulatory and any realistic valuation.
- 2.5 (G) Rule 5.1A of IPRU(FSOC) requires a *directive friendly society* to comply with rules 9.1 to 9.36, 9.37 and 9.39 of IPRU(INS). Rule 5.11 (1A) of IPRU(FSOC) imposes similar requirements on non-directive incorporated friendly societies, namely that to the extent that the auditor’s opinion relates to matters covered by the investigation in rule 5.1 the *friendly society* must ensure that the auditor takes appropriate advice from a suitably qualified actuary who is independent of the *friendly society*, and that the auditor’s report in Form 61C must include a statement that the auditor has taken such advice.
- 2.6 **(M) The auditor is responsible for determining the scope of the audit. However, the *reviewing actuary* must advise the auditor of the implications if the scope is narrower than one proposed by the *reviewing actuary*. Any limitations in scope should be set out in the *reviewing actuary*’s report to the auditor.**
- 2.7 (G) 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 **(M) 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, and in a form agreed with the auditor.**

3.2 **(M) The *reviewing actuary* is required by IPRU (INS) 9.35 (1A) or IPRU (FSOC) 5.11 (1A) as appropriate to be independent of the *firm*. The *reviewing actuary* must discuss the auditor's independence requirements with them.**

3.3 **(M) When providing advice to the auditor, the *reviewing actuary* must 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 (G) 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 having taken appropriate advice from the *reviewing actuary*.

4.2 **(M) In respect of the items within scope, the *reviewing actuary* must (as a minimum) advise the auditor on the methods and assumptions used by the *firm* and, in particular, on whether they comply with the requirements of PRU7.3 and, if relevant, PRU 7.4.**

4.3 (G) 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 (G) Analysis of surplus, or other method of reconciling movement of liabilities, should, where available, normally be an important control to review.

4.5 (G) PRU 7.3.10R requires a *firm* to use methods and prudent assumptions which, inter alia, "take into account its regulatory duty to treat its customers fairly" and "are in accordance with generally accepted actuarial practice". The *reviewing actuary* should normally test these requirements by respectively having due regard to the *firm's Principles and Practices of Financial Management* (if any) and its contractual obligations and satisfying the requirements of the relevant professional Practice Standard guidance and the *FSA Handbook*.

4.6 **(M) 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.**

4.7 (G) For with-profits firms, 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 (G) 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.
- 5.2 (G) 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 (G) The *reviewing actuary* should normally agree protocols for timely reporting of issues to the auditor. The *reviewing actuary* should be aware that he or she does not have whistle blowing obligations and therefore does not have whistle blowing rights or protection.

## **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 International Standard on Auditing (UK& I) 315 – Obtaining an Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement  
APB International Standard on Auditing (UK& I) 320 – Audit Materiality  
APB International Standard on Auditing (UK& I) 230 – Documentation  
APB International Standard on Auditing (UK& I) 220 – Quality Control for Audits of Historical Financial Information  
APB International Standard on Auditing (UK& I) 330 – The Auditor’s procedures in Response to Assessed Risks  
APB International Standard on Auditing (UK& I) 500 – Audit Evidence  
APB International Standard on Auditing (UK& I) 520 – Analytical Procedures  
APB International Standard on Auditing (UK& I) 540 – Audit of Accounting Estimates  
APB International Standard on Auditing (UK& I) 530 – Audit Sampling and Other Means of Testing  
APB International Standard on Auditing (UK& I) 580 – Management Representations  
APB International Standard on Auditing (UK& I) 620 – Using the Work of an Expert  
APB International Standard on Auditing (UK& I) 260 – Communication of Audit Matters With Those Charged With Governance  
APB International Standard on Auditing (UK& I) 250 Section B – The Auditors’ Right and Duty to Report to Regulators in the Financial Sector  
Bulletin 2004/5 - Supplementary Guidance for Auditors of Insurers in the United Kingdom  
Bulletin 2004/6 – Supplementary Guidance for Auditors of Friendly Societies 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.