



Institute  
and Faculty  
of Actuaries

## Audit in a Solvency II world

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PwC

November 2016



### Agenda

- Financial reporting landscape
- What is an audit?
- Scope of Solvency II Audit
- Our approach to audit
- Key issues this year-end
- Embedding in business as usual
- Q&A

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## Financial reporting landscape



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## Interaction between Solvency II and IFRS

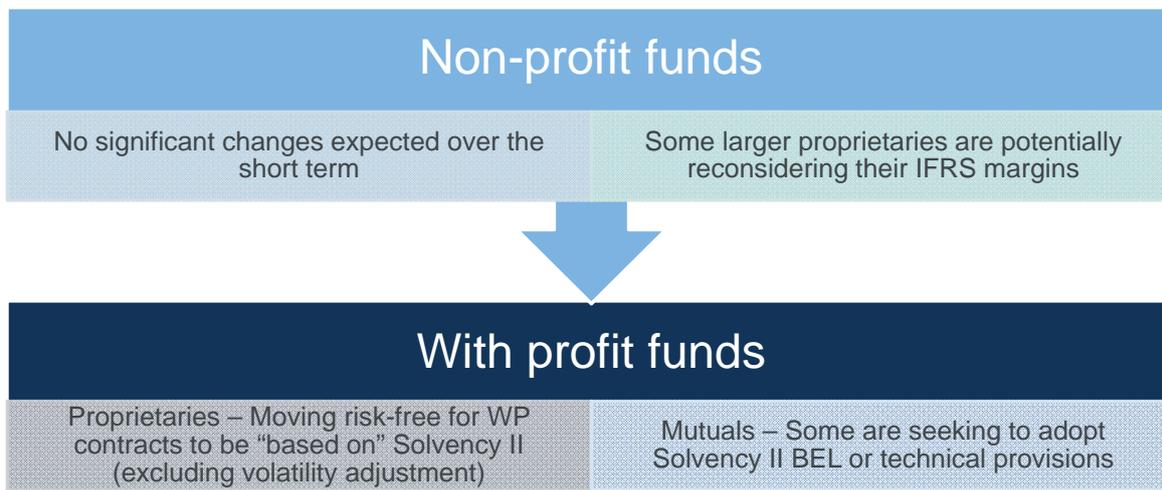
- Companies are considering how to leverage Solvency II for IFRS reporting
- The permissibility and practicality or not of a change is **dependent on your accounting policy** and the **“type” of insurer**, notably:
  - Mutual insurers versus proprietary insurers
  - IFRS versus UK GAAP reporter (e.g. linkage IFRS 4 Phase II ‘direction of travel’).
  - ‘Type’ of IFRS reporting (e.g. EV, modified UK statutory, overseas GAAP etc.).
  - Level of prudence, allowance for risk, investment margins and uniformity in current accounting versus proposed new accounting.

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## Interaction between Solvency II and IFRS

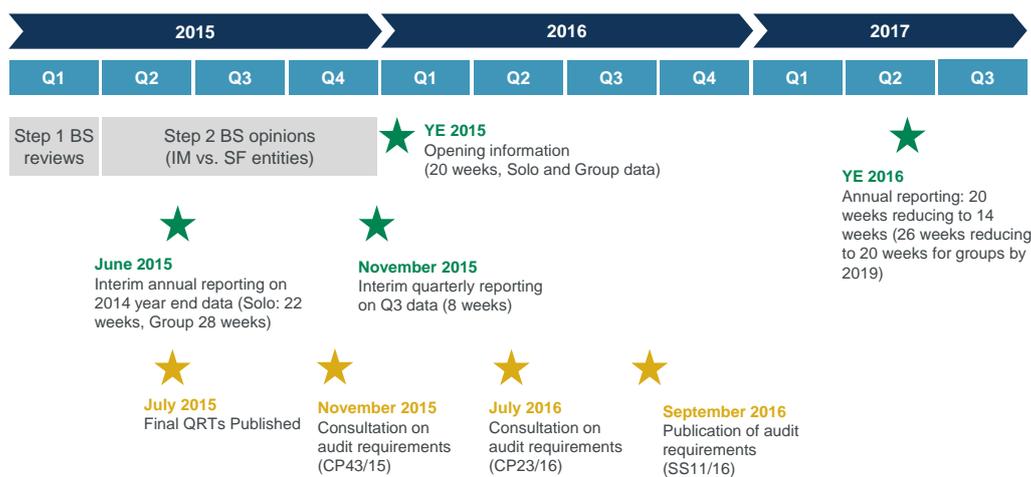
### Market views



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## Solvency II reporting timeline



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★ Key publications

★ Reporting deadlines

Note: Deadlines are based on a 31/12 year-end

## What is an audit?

### Audit:

*“The objective of an audit of financial information is to enable the auditor to express **an opinion** whether the **financial information** is prepared, in **all material respects**, in accordance with an identified **financial reporting framework**.”*

- Audit opinions are driven by the International Standards on Auditing ('ISAs') and guidance issued by

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## What is an audit under Solvency II?

### Audit:

*“The objective of an audit of financial statements is to enable the auditor to express **an opinion** whether the **financial information** is prepared, in **all material respects**, in accordance with an identified **financial reporting framework**.”*

The financial information is the sections of SCFR in the PRA Scope (incl. QRTs).

The concept of materiality will be defined at beginning of the audit.

An opinion will be given that the SCFR have been prepared in accordance with the relevant framework.

The relevant framework is the EIOPA SII texts and relevant PRA guidance.

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## PRA Policy Statement highlights

Scope	TMTP	SFCR	Actuaries
<ul style="list-style-type: none"> <li>The SCR and information that derives from it, is exempt if calculated using an approved full or partial internal model</li> </ul>	<ul style="list-style-type: none"> <li>Pillar I and II assets, liabilities and capital calculated in accordance with the previous regime for the purposes of the TMTP are not expected to be audited.</li> </ul>	<ul style="list-style-type: none"> <li>PRA requires that the auditor read and consider all information disclosed by the firm in its SFCR that is not subject to the reasonable assurance opinion to identify material inconsistencies with the audit</li> </ul>	<ul style="list-style-type: none"> <li>the PRA expects that auditors, in undertaking the external audit, will obtain and pay due regard to the work of a suitably qualified actuary who is independent of the firm.</li> </ul>

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## Scope of solvency II audit requirements

- The audit scope covers the following elements of the SFCR of UK insurers and groups:
  - The Solvency II balance sheet and own funds
  - The SCR calculated using the standard formula (where applicable)
  - The MCR
  - Narrative disclosures on the valuation of the Solvency II balance sheet, capital and own funds
  - Reporting of the entities within the scope of the group

Quantitative Reporting Template	Solo	Group
S.02.01 Balance Sheet	✓	✓
S.12.01 Life and health SLT technical provisions	✓	
S.17.01 Non-life technical provisions	✓	
S.22.01 Impact of LTG measures and transitionals	✓	✓
S.23.01 Own funds	✓	✓
S.25.01 SCR – standard formula	✓	✓
S.28.01 MCR – life or non-life	✓	
S.28.02 MCR – composite	✓	
S.32.01 Undertakings in the scope of the group		✓

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## What has changed compared to 2014?

2014: PRA SII Balance sheet assurance "Step 1 and Step 2"

2016: first time Solvency II audit



- Internal model and certain larger or unique standard formula firms
- Reasonable assurance
- Solo and group
- Balance sheet, own funds and Technical provisions (excluding risk margin)
- Presentation based on basis of preparation

- All companies
- Audit under ISA
- Solo and group
- Balance sheet, own funds, Technical provisions, risk margin and MCR, SCR for Standard Formula firms only.
- Presentation based on EIOPA texts and PRA guidance. No basis of preparation but narrative needed in SFCR

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## Our approach to audit

Risk-based approach

All PwC audits follow a risk based approach

Before beginning an audit, the audit team will consider the audit risks that the client faces and what that means for the audit.

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## Our approach to audit

### Risk assessment

#### How are risks assessed?

- **Nature** of the risk.
- **Materiality** – Likely magnitude of potential misstatements.
- **Likelihood** of occurrence.

#### How are risks classified?

- **Normal** – Relatively routine, non-complex risks which tend to involve systematic processing and little management judgement.
- **Elevated** – Require additional audit consideration, but are not significant risks on grounds of their nature, materiality or likelihood of occurrence.
- **Significant** – Require special audit consideration because of their nature, materiality and likelihood of occurrence.

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## Our approach to audit – New areas of risk?

▶ Calculation of SCR under Standard formula

▶ Projection of SCR into the Risk margin

▶ Categorisation of assets for market risk calculation

▶ Persistency assumptions

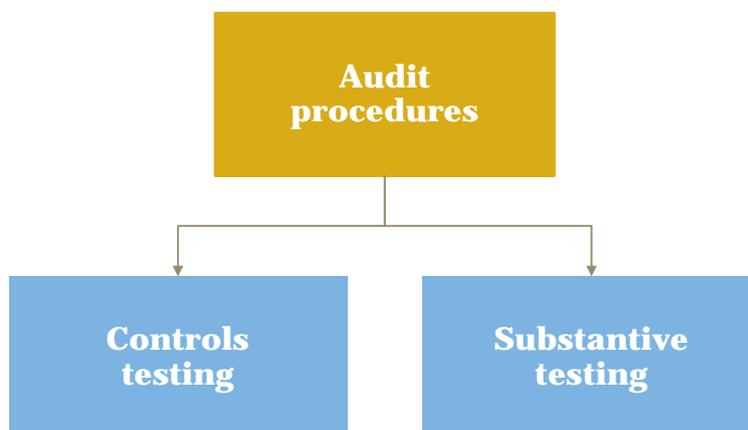
▶ Determination of contract boundaries

▶ Maintenance of matching adjustment eligibility

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## Our approach to audit

Type of testing



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## Audit of the SII Balance Sheet (Other than technical provisions)

*The audit will be based off IFRS with focus on review of Solvency II valuation differences.*



*The largest change in the audit will be the level of additional data pulled into scope, such as that driving the SF SCR.*



*Tax plays a key role, new judgements around the loss absorbing capacity of SCR will be key to the audit.*



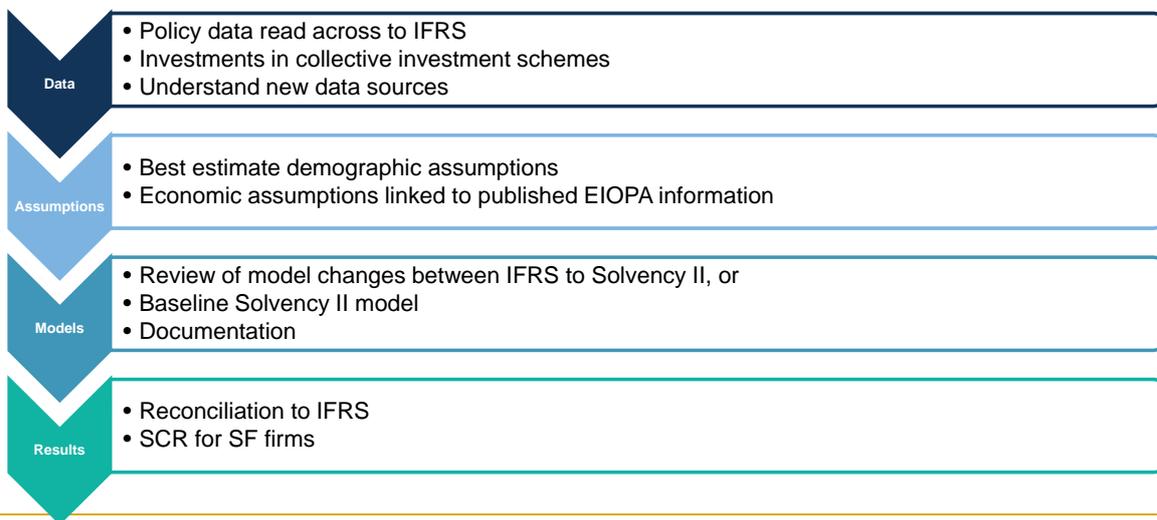
*Narrative reporting including that setting out key methodology and assumptions is subject to audit.*



Solvency II audit Training

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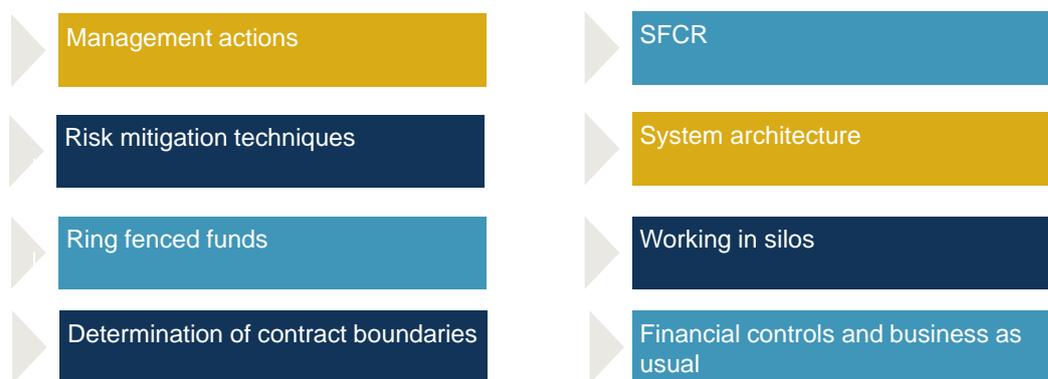
## Areas of Audit Focus for this year end



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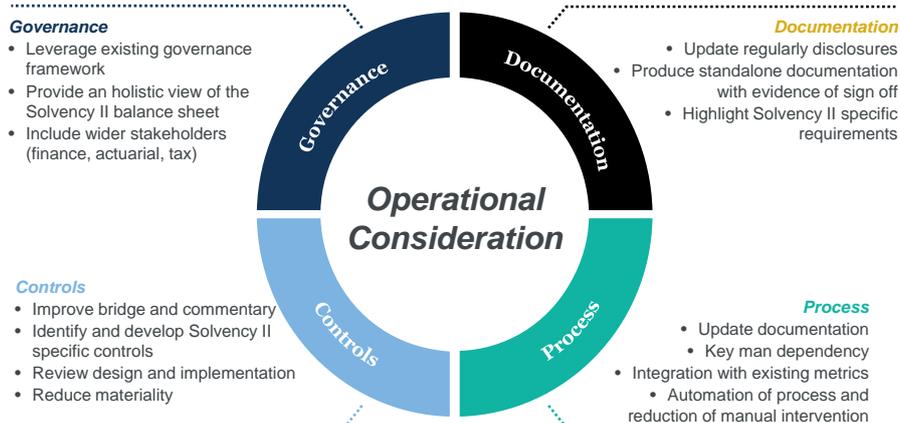
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## Issues seen to date



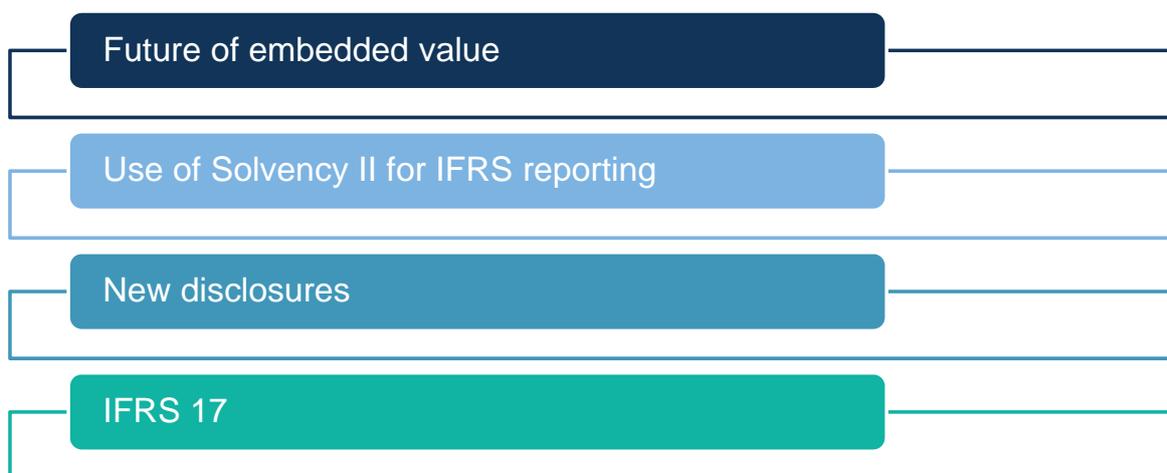
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## Embedding in business as usual



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## Future of reporting



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## Concluding remarks

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 onorship  
 Thought leadership  
 Progress  
 Community  
 Sessional Meetings  
 Education  
 Working parties  
 Volunteering  
 Research  
 Shaping the future  
 Networking  
 Professional support  
 Enterprise and risk  
 Learned society  
 Opportunity  
 International profile  
 Journals  
 Support

**Questions**

**Comments**

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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