

# AUDIT AND ACTUARIAL REGULATION – FRC'S OVERSIGHT RESPONSIBILITIES

This Appendix reports on:

- (i) the FRC's statutory oversight of the regulation of auditors by recognised professional bodies in 2016/17;
  - (ii) the FRC's statutory oversight of Local Audit;
  - (iii) the FRC's oversight of certain accountancy professional bodies;
  - (iv) the FRC's statutory responsibilities as the Independent Supervisor of Auditors General;
  - (v) the FRC's statutory responsibilities for the regulation of Third Country Auditors;
  - (vi) the FRC's oversight of the Institute and Faculty of Actuaries.
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## **(ii) The FRC's oversight of the Institute and Faculty of Actuaries**

### 6. Introduction

- 6.1 We report here on the FRC's non-statutory oversight of the regulation of actuaries in the UK by the Institute and Faculty of Actuaries (IFoA).
- 6.2 As recommended by the Morris Review of the Actuarial Profession (published 2005), the FRC assumed responsibility for independent oversight of the UK actuarial profession's self-regulation in 2006 at the request of HM Treasury. This oversight arrangement is voluntary and is established through a Memorandum of Understanding (MoU) with the IFoA, updated in 2014.
- 6.3 We carry out our oversight through liaison with the IFoA and, in 2016/17, we carried out an oversight visit where we performed walkthroughs of the IFoA's systems and procedures and reviewed the supporting documents/files in relation to complaints handling and discipline, CPD and Practising Certificates.

Report on the IFoA's regulatory progress in 2016/17

- 6.4 Last year's Appendix set out the matters which the FRC considered should be the IFoA's priorities for the year ahead. We asked the IFoA to continue to focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis. We have encouraged the IFoA to refine its data capture process to ensure that it is better informed of its members' key work areas so that its regulatory initiatives will always be well-targeted.
- 6.5 In summary we have observed the following in 2016/17:
  - The IFoA continues to make progress in raising both its members' awareness of regulation and standards of professionalism. The level of cooperation from the IFoA is high.
  - During 2016/17 the IFoA made progress in identifying risks to the public interest where actuarial work is relevant. It published its Risk Outlook in December 2016 which also sets out its thinking in relation to the mitigants to those identified risks. In addition the IFoA has published a number of "Risk Alerts" to draw its members' and stakeholders' attention to specified key areas of relevant risk.
  - In April 2016 the IFoA published, with our input its framework of skill sets which outlined the knowledge, skills and competencies that users can expect of actuarial practising certificate holders. We now await evidence of the IFoA's efforts to embed these key attributes into its regulatory programmes with the objective of ensuring that actuaries are equipped with the skills to fulfil their roles in the public interest.
  - The level of compliance by the IFoA's members with its CPD scheme has improved since 2015/16.
  - The IFoA published further Professional Skills training materials for its members in 2016/17 which were embedded through significant member engagement and were well received. It is developing its 2017/18 Professional Skills programme.
  - In line with our mutual expectations, the IFoA has helped to make its members aware of the revised Technical Actuarial Standards (TASs), which take effect on 1 July 2017 and has published non-mandatory guidance to assist its members with the practical application of TAS100.

- A number of IFoA reviews of key areas, including ethics, quality assurance, practising certificates and education are underway:
  - The IFoA's substantive review of the Actuaries' Code has made progress during the year. The IFoA now plans to consult in 2017.
  - Under our influence, and with our continuing input, the IFoA is now developing its post implementation review of APS X2: *Review of Actuarial Work* following the withdrawal of APS P2: *Compliance Review - Pensions* in July 2015. Its programme of education and training is ongoing.
  - We continue to be supportive of the IFoA's Quality Assurance Scheme (QAS) for firms which has demonstrated positive progress over its first year of operation. QAS accredited entities now employ approximately 25% of the IFoA's UK members. Over the year, we have developed our understanding of the IFoA's actions, in QAS accreditation and assessment, to ensure that the QAS is implemented effectively in practice to drive actuarial quality. We await the IFoA's assessment of how the outputs from the QAS can be used as a measure for actuarial quality and note that the independent assessor of accreditation under the QAS has now reported to the IFoA on the first year of operation of the QAS.
  - The IFoA has started to implement a new curriculum, amended to reflect the changing nature of actuaries' work. The IFoA is reviewing its qualification framework and the treatment of specialist studies within this. It expects to consult with the FRC and other key stakeholders over the summer of 2017.
  - The IFoA has commenced a review of its practising certificate regime. It plans to consult in 2017 as the practising certificate regime is a key component of the IFoA's proposed monitoring regime.
  - In February 2017, the IFoA's Council approved the new Capacity for Membership Scheme, an alternative to discipline where significant ill health warrants.

#### Findings from our oversight visit to the IFoA

- 6.6 The systems and procedures in place are generally adequate in the areas we reviewed. The key areas for improvement we noted are that:
- In all areas reviewed, better safeguards are needed to improve the IFoA's data protection arrangements; we note that the IFoA is conducting an organisation-wide review to future-proof against the forthcoming General Data Protection Regulation legislation and to make best use of modern technology.
  - Some of the IFoA's policies and procedures which support its discipline scheme required improvements. The IFoA has confirmed that this is being done as part of a rolling review programme;
  - The current conflicts of interest policy for volunteers in the Practising Certificates Committee should be revised and the IFoA has agreed to address this; and
  - The Communications Principle in the Actuaries' Code should be clarified so that the wording reflects its intended scope and application. We note that this is being addressed by the IFoA as part of its current review of the Actuaries' Code.

#### IFoA's monitoring of the quality of actuarial work of its members

- 6.7 There remains a risk to the public interest as the quality of actuarial work is not directly monitored. Over the year, we have sought to influence the IFoA's development of a proposal to address this risk in a proportionate and credible way. We have encouraged the IFoA to consider the residual public interest risk across the landscape of actuarial work that its members perform and to reference the drivers and indicators of actuarial quality in order to establish which work outputs should be monitored. We have developed hallmarks against which to assess the IFoA's proposals for monitoring including that the regime should be proportionate and practical.
- 6.8 We have now received the IFoA Regulation Board's proposal to monitor the quality of actuarial work on which the IFoA plans to consult in 2018/19. We consider that the proposals have the necessary hallmarks of an effective monitoring regime.