

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



ISSUES PAPER ON THE RELATIONSHIP BETWEEN THE ACTUARY AND THE EXTERNAL AUDITOR IN THE PREPARATION AND AUDIT OF FINANCIAL REPORTS

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[Note of special contributions to be added if applicable, eg from IAA and auditing profession.]

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Issues Paper on the relationship between the actuary and external auditor and in the preparation and audit of financial reports

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Introduction

1. The IAIS recognises the importance of actuarial expertise and the role of external audit within the context of financial reporting by an insurer. Because the supervisory process relies heavily upon financial reports, both the actuary and the external auditor (hereafter referred to as 'auditor') are important within a supervisory framework.

2. The IAIS Insurance Core Principles (ICP) make numerous references to both actuaries and the external audit. The following core principles include references to the responsibilities of the actuary or auditor, or both:

- ICP 1: Conditions of effective insurance supervision
- ICP 7: Suitability of persons
- ICP 9: Corporate governance
- ICP 10: Internal control
- ICP 12: Reporting to the supervisor and off-site monitoring
- ICP 13: On-site inspection

The IAIS is also developing high-level supervisory papers on corporate governance, which will emphasise the broader roles of the actuary and the auditor within an insurer's governance structure.

3. The IAIS believes that the roles of the actuary and the auditor, and the relationships between them and with the supervisor, are enhanced by:

- clear definition of their respective roles and responsibilities
- arrangements for formal communication between them.¹

4. At the international level there is currently no comprehensive source of information or guidance to insurance supervisors on the relationship between the actuary and the auditor and the communication between the two and with other stakeholders involved in the financial reporting process within the context of the preparation and audit of financial reports of an insurer (although certain jurisdictions have produced such guidance).

5. This paper describes the relationships between the actuary and the auditor, and with the supervisor, in the preparation and audit of an insurer's financial reports. An understanding of these relationships will help set insurance supervisors' minimum expectations of those relationships within the supervisory process.

6. The IAIS notes that there is currently no international auditing or actuarial standard which specifically deals with the relationship between the actuary and the auditor. Whilst addressed primarily to insurance supervisors, this paper may also be useful to the auditing and actuarial professions. Valuable input has been received from both in the development of this paper. *[We assume this will be the case by the time we finalise.]*

7. Although there is no international auditing standard which covers the relationship between the actuary and the auditor, two International Auditing Standards (ISAs) consider the role of an expert within the context of the audit and are of relevance:

- ISA 620 *Using the work of an auditor's expert* (December 2008) establishes standards and provides guidance on using the work of an expert in gathering

¹ See paragraph 14 of IAIS Guidance paper *The use of actuaries as part of the supervisory process* (2003).

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audit evidence for the purpose of developing an opinion regarding the audit of a financial report. This auditing standards is relevant to the auditor's use of actuarial expertise (the "auditor's actuary") within the audit.

- ISA 500 *Audit evidence* (December 2008) deals with the use by the auditor, as audit evidence, of information prepared by an expert employed or engaged by the entity ("management's expert"). This auditing standard is relevant to the auditor's use of the work of the actuary employed or engaged by the entity (the "insurer's actuary").

Scope

8. This paper describes good practice regarding the relationships between the auditor and the actuary from the perspective of the insurance supervisor. The paper also reiterates or elaborates on positions set out in other IAIS literature regarding relevant IAIS requirements or expectations.

9. It is not the intention of this paper to impose requirements upon either the actuary or the auditor regarding their professional relationship with each other or with the supervisor.

10. The financial reports within the scope of this paper are those prepared by an insurer which

- involve actuarial expertise in their preparation, and
- are subject to an external audit.

11. Financial reports may be prepared on different bases, including but not limited to, general-purpose financial statements, regulatory reports, capital adequacy and other special purpose reports. Actuarial expertise is generally required in the preparation of such financial reports.

12. Unless otherwise stated the actuary referred to in this paper is an actuary who is either employed by the insurer (or affiliated company) or contracted by the insurer, normally from a firm of consulting actuaries, and may be referred to as the "insurer's actuary".² In either case the actuary's roles and responsibilities are the same. These include responsibility for actuarial input into the financial reporting process as described in ISA 500, or providing a professional opinion (outside the audit) relating to one or more financial items in the financial report. Other actuarial contributions to an insurer are not addressed in this paper.

13. The auditor referred to in the paper is the external auditor responsible for providing an independent opinion on an insurer's financial statements, and other financial reports where relevant. This paper does not discuss an insurer's internal audit function.³

14. An actuary is often either employed or engaged by an auditor to assist it in developing audit evidence. This role of an auditor's actuary is covered in ISA 620. An auditor's actuary will often assist the auditor in carrying out the auditor's roles and responsibilities within the context of an audit of a financial report of an insurer.

15. An actuary or auditor may also be employed or engaged by the insurance supervisor in carrying out supervisor responsibilities. Their roles and responsibilities serving in this function are outside the scope of this paper.

² Sometimes referred to as the 'reporting actuary', although not all jurisdictions currently have such a requirement.

³ Except for the reference in paragraph 19 to management's responsibility for the control framework.

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Roles and responsibilities

16. This section of the paper considers the respective roles and responsibilities with respect to financial reporting by insurers.

Management

17. Ultimate responsibility for financial reporting lies with the Board of Directors and the management (hereafter referred to as 'management') of the insurer.

18. This includes responsibility for the accounting estimates, such as technical provisions, included in the financial reports.

19. Management is also responsible for the control environment in which financial reports are prepared. This includes, amongst other things, ensuring that:

- staff, in particular those in key positions, have sufficient expertise, integrity and experience
- adequate accounting procedures are in place and are complied with
- appropriate management information systems are in place
- adequate internal controls are in place
- appropriate risk management policies and procedures are in place
- an appropriate internal audit function⁴ review and report regularly to management on the performance of internal controls is in place.

20. The responsibilities of management are in no way reduced by a requirement for an insurer's financial reports to be audited, by the use of actuarial expertise in determining the accounting estimates, or by the existence of insurance supervision.

Actuary

21. The application of actuarial expertise is a key component in the operation of insurers, insurance markets and supervisory authorities.

22. Actuarial skills include those used to assess risk, determine the adequacy of premiums and establish technical provisions for both life and non-life insurance. These skills require

- a detailed understanding of the business of insurance and the nature and probabilities of insurance risks (eg mortality, morbidity, claims frequency and severity)
- a detailed understanding of the use of statistical models
- a detailed understanding of the use of discounted cash flows
- understanding and assessment of the use of financial instruments including derivatives
- an understanding of volatility and the uncertainty associated with accounting estimates⁵.

⁴ Small firms which do not have their own internal audit department may outsource this function to a external resource, for example to a firm of auditors other than the audit firm engaged to perform the external audit.

⁵ Further information on the role of the actuary is given in the IAIS Guidance Paper *The use of actuaries as part of the supervisory process* (2003).

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Actuaries apply these skills in providing advice and, where they are members of management, in participating in decision-making.

23. It is important that the actuary involved in preparing estimates for financial reporting purposes has sufficient understanding of:

- the business and risk environment in which the insurer operates, which will have an affect upon the information reported, and
- the purpose for which the reports are being prepared.

24. Audited financial reports often include amounts that either are determined by an insurer's actuary or have utilised the expertise of an insurer's actuary in their preparation. The accounting estimates related to, but not limited to, technical provisions have a pervasive and significant effect on the financial reports of insurers.

25. The use of actuarial expertise in preparing accounting estimates does not reduce the responsibility of the auditor in expressing an opinion on their appropriateness within the context of the financial report that they are auditing. Neither does it lessen the responsibility of management both for the estimates and for financial reporting in general.

26. Similarly, the involvement of actuarial expertise within the audit does not reduce the responsibility of the company's management for ensuring the involvement of sufficient actuarial expertise by the insurer's actuary in the preparation of financial reports.

27. In some cases the insurer's actuary may be responsible for providing an opinion to third parties on the appropriateness or sufficiency of amounts contained in financial reports.

28. Where there are differences between different sets of reports (ie between general-purpose and regulatory financial reports), actuarial expertise may be required not only in preparing estimates for use in these financial reports, but also in helping to explain differences in the bases of reporting and the accounting estimates.

29. When the insurer's actuary is responsible for determining amounts to be included in the financial reports, and/or in expressing an opinion on amounts contained in financial reports, it is important that he is free from undue influence in doing so and is able to communicate adequately with the auditor and insurance supervisor or other relevant party in performing his work.

Auditor

30. The role of the external auditor is to express an independent opinion on an insurer's financial reports which may include, but are not limited to, general-purpose financial statements, regulatory reports, capital adequacy and other special reports. In performing this role the auditor brings his accounting expertise to the financial reporting process, including an in-depth knowledge of the applicable financial reporting framework.

31. The users of an auditor's report can vary depending on the purpose of the report or audit. They may be the shareholders of the insurer or other stakeholders such as insurance supervisors, audit committees and policyholders. The auditor's opinion plays a critical role in establishing the credibility of the financial reports.

32. In some jurisdictions the audit opinion and related audit processes are important inputs into the supervisory process, particularly where inputs into regulatory reporting and/or capital adequacy calculations are based on information from audited general-purpose financial statements. In some cases the auditor provides an audit opinion on the regulatory reports and/or capital adequacy reports.

33. In some jurisdictions the auditor is required to report to the insurance supervisor any fact or decision that may:

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- constitute a material breach of laws or regulation
- affect the insurer's ability to continue as a going concern, or
- lead to a qualified audit opinion.

34. As noted in paragraph 24 above, the nature of the accounting estimates of an insurer (in particular technical provisions) requires that their determination is often a complex process. Both the calculation and audit of such estimates requires the use of an appropriately qualified expert.

35. In view of this an actuary, or actuarial expertise, is often employed by the auditor as part of the audit engagement team. Where this is the case the actuary, referred to in this paper as the "auditor's actuary", acts in the capacity of an expert as described in ISA 620. The use by the auditor of actuarial expertise within the audit team does not reduce the responsibility of the auditor in expressing an audit opinion on a financial report.

36. The role of an auditor's actuary will depend on the business of the insurer and the circumstances in which the audit is conducted, and may range from extensive involvement in all phases of the audit to a more limited participation in specific areas. The extent and nature of involvement will depend inter alia on the nature of the insurer's major product lines, the adequacy of controls and the qualifications of the insurer's actuary.

37. The use of an auditor's actuary, although usually required, may not be necessary in limited circumstances, for example:

- where technical provisions or accounting estimates requiring the use of actuarial skills are not material to the insurer
- where technical provisions are highly predictable.

38. The involvement of an actuary in the audit process helps the auditor to gather sufficient appropriate audit evidence (see paragraph 39 below). However, this involvement is not a substitute for any existing requirements of the auditor to obtain sufficient appropriate evidence to support the audit opinion. Key areas in which actuarial involvement in audit procedures may assist the audit include:

- obtaining an understanding of the insurer and its environment, including internal controls, relevant to auditing technical provisions or other accounting estimates
- identifying and assessing the risks of material misstatement of technical provisions, including determining whether any of the assessed risks require special audit consideration or represent risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
- determining overall assessment of risks of material misstatement at the financial statement level, and the nature of those responses, including in the audit of technical provisions or related amounts
- designing and performing audit procedures with respect to technical provisions, including tests of the operating effectiveness of controls, and substantive procedures whose nature, extent and timing are responsive to the assessed risks of material misstatement
- testing the assumptions used in, and the robustness of, internal models if these are used to set technical provisions or capital requirements.

39. The auditor's actuary may assist in performing substantive procedures on the following areas used in determining accounting estimates, including technical provisions and related amounts:

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- testing of the computations
- testing of the modelling
- testing of the reasonableness of assumptions.

The extent of assistance is influenced by factors such as the complexity of the technical provisions, the auditor's cumulative knowledge of the integrity of the technical provisioning process, the effectiveness of the internal control structure, the degree and nature of changes in technical provisions in the current year, and other changes in areas impacting on technical provisions.

40. Where the auditor has doubts over the reliability of the audit evidence obtained (including from his review of the work of the actuary), ISA 500 requires the auditor to determine what modifications or additions to audit procedures are necessary to resolve the matter and to consider the effect of the matter, if any, on other aspects of the audit.⁶

41. An actuary acting on behalf of the insurer (insurer's actuary) should not be permitted to work for the auditor (auditor's actuary), and vice versa, to enhance of the objectivity of both.

Supervisor

42. The insurance supervisor requires financial reports to help it carry out its supervisory responsibilities in respect of the insurer. The supervisor will require receipt of an insurer's audited financial statements, and in some jurisdictions is responsible for making them publicly available.

43. The supervisor may require further financial reports, such as regulatory returns and supporting schedules. Local laws, regulations and agreements with the insurer are likely to govern the format, content and timing of such reports. The supervisor may also request or require additional recurring or ad-hoc reports, such as management letters (see paragraph 59 below), as necessary. In many cases the supervisor will require the information to be audited. These will often take the form of a professional opinion or report prepared by the auditor.

Communication

Between the actuary and the auditor

44. Effective communication between the insurer's actuary and the auditor is important in ensuring a clear basis upon which the work of the actuary and auditor can be used appropriately by the other. This helps establish an understanding of the scope and approach to be taken in the course of the work by each professional and the nature and extent of reliance to be placed by each on the work of the other.

45. Before accepting an engagement regarding a financial statement of an insurer that requires actuarial expertise regarding a significant element of a financial statement, the actuary and auditor should obtain from the management the right to communicate with each other and to disclose the information requested. If the right to communicate is not obtained from management, it would be expected that the engagement would not be accepted.

46. The actuary and the auditor should request from each other the information relevant to the work of the professional making the request. This information is necessary to obtain a proper understanding of the work of the party from whom the disclosure is requested.

⁶ See ISA 500 Audit evidence, paragraph 11.

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47. Communication between the actuary and auditor commences during the planning stage of an engagement and continues throughout the engagement.
48. The exchange of information between the two professionals takes place on a confidential basis.
49. The auditor would ordinarily:
- a. inform the actuary of the auditor's intended use of the actuarial work
 - b. inquire as to whether the actuary has been appointed by the appropriate body to perform the work that the external auditor intends to use
 - c. inquire as to whether the actuary intends to carry out his work in accordance with applicable professional standards
 - d. make the actuary aware of the auditor's needs. This would include a discussion of:
 - the scope of actuarial work, for example, which accounting estimates will be determined or be reviewed by the actuary
 - the basis under which accounting estimates are determined, eg IFRS or local regulatory standards
 - materiality, to determine that the actuary will use a materiality level that is appropriate in relation to the auditor's materiality level
 - subsequent events, to determine that the actuary understands how events arising after the reporting date are to be treated and that the actuary will consider the effect of matters that come to his attention up to the date of the actuary's report
 - identification and verification of data used or relied upon by the actuary that may be significant to the audit opinion, to ensure that reasonable assurance will be obtained with respect to the accuracy and completeness of the data used by the actuary in the determination of a value subject to the scope of the audit
 - the timing of the work to be carried out by the actuary and the date of the actuary's report, and
 - any questions relating to the actuary's work.
50. The actuary would ordinarily:
- a. affirm that he can perform the work that the auditor intends to use or rely upon
 - b. affirm that he has been appointed by the appropriate body to perform the work that the auditor intends to use or rely upon
 - c. affirm that the work performed by him will be carried out in accordance with applicable professional standards
 - d. affirm the materiality level of audit of the data to determine whether additional data-related evaluation would be necessary
 - e. affirm that the auditor may use the work provided by him
 - f. discuss any problems expected to be encountered in meeting the needs of the auditor in a timely manner
 - g. affirm the timing of the audit during which the auditor will use the actuarial results
 - h. provide a copy of the actuarial report, as applicable, relevant to the auditor, and

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- i. assist the auditor in determining whether there is a basis for using his work.

Between the actuary and the insurance supervisor

51. [Communication between the actuary and the insurance supervisor is discussed in a joint IAIS/OECD *Issues paper on corporate governance* (2009) – under development.] See also paragraph 57 below.

Between the auditor and the insurance supervisor

52. Insurance supervisors benefit from the results of the auditor's work. In addition to the audited general-purpose financial statements, paragraphs 64 to 67 below describe types of communication from the auditor to management which are likely to be of interest to insurance supervisors.

53. In addition, and as noted in paragraph 33 above, in some jurisdictions the auditor is required to report to the supervisor certain types of significant matters encountered during the course of the audit which may require the supervisor's urgent action (where these have not been reported by management to the supervisor). Such matters might include the insurer's failure to comply with laws and regulations, or concerns over its ability to meet solvency requirements. Where there is no such requirement upon the auditor, the auditor would nevertheless be expected to consider communicating such matters to the supervisor, when management is unwilling to do so, having regard for whether the law provides protection in the case of such communications.

Reporting

54. Where the amounts determined by the actuary are significant to a regulatory financial report on which the auditor expresses an opinion, it desirable that a report by each should be included within the financial report. The report should disclose their respective roles.

Actuary

55. Where the actuary prepares a report regarding the preparation or actuarial review of accounting estimates (principally technical provisions) included in a financial report, this report can be expected to include the following:

- identification of the actuary and his qualification to conduct the work
- identification of the nature and purpose of the work
- identification of the financial report or data to which it relates
- identification of the scope of the work and any specific terms of reference
- identification of the actuary's relationship to the entity to which the financial report or data relate
- confirmation of awareness that the auditor intends to consider the actuary's report and the work supporting it in the audit of the financial report
- the actuary's findings and opinion, including a representation that the work was performed in accordance with applicable professional standards (see also "Professional standards and qualifications" below).

56. The actuary conducts his work on the basis of applicable actuarial standards of practice and the governing financial reporting framework.

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57. In many jurisdictions local regulations require that an actuary's report on the adequacy of technical provisions be provided to the supervisor. The same requirement may apply to other financial reports. Such reports and the work that forms their basis may also form the basis for reports which the actuary provides to the auditor, as applicable.

Auditor

58. The auditor reports on the insurer's financial statements in accordance with applicable auditing standards and the governing financial reporting framework.

59. In connection with the audit of the financial statements the auditor may be required report to the management or to those charged with governance on matters related to governance and internal controls which came to light during the course of the audit.

60. Reporting by the auditor on other financial reports or information, such as regulatory reports or special purpose reports to the supervisor, are governed by the engagement terms for that work and applicable auditing standards.

Relationship between auditor and insurance supervisor

61. Whilst the role of the actuary within the supervisory process is discussed in other IAIS literature⁷, there is no separate paper that discusses the relationship between the auditor and the supervisor. As a result, one aim of this paper is to promote an understanding of supervisors' expectations of the role of the auditor within a supervisory framework. As noted in the introduction to this paper, the IAIS confirms the importance of the role of the auditor in this context.

62. In many respects insurance supervisors and auditors face similar challenges and, increasingly, their roles with respect to relevant financial reports are perceived as complimentary. Although their focus is different, nonetheless there are many areas where the work of the insurance supervisor and the auditor can be useful to each other.

63. Insurance supervisors benefit from the results of the auditor's work, whether with respect to regulatory reports or to those of a general-purpose nature. Effective insurance supervision requires the collection and analysis of reliable information about supervised insurers. This information includes various financial reports, some or all of which may require an audit. Where these reports are audited, the supervisor may be able to place greater reliance upon them.

64. As part of the audit the auditor ordinarily communicates certain information to management and the insurer's Board of Directors (or equivalent). This information generally includes comments on such matters as material weaknesses in internal control or misstatements in the accounting records which have come to light during the course of the audit

65. Communications from the auditor to management and the insurer's Board of Directors (or equivalent) and other reports submitted by auditors can provide supervisors with valuable insights into an insurer's operations. Similarly, auditors may benefit from information originating from the supervisor, such as the conclusions from an on-site inspection. Although not often required, similar communication procedures may be desirable with respect to actuaries as well.

66. In view of the benefits that both supervisors and auditors can obtain from each other's communications with the insurer's management and Board of Directors (or equivalent), it is

⁷ See in particular the IAIS Guidance Paper: *The use of actuaries as part of a supervisory model* (2003)

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desirable for such communication to be made in writing and hence form part of the insurer's records.

67. In performing the audit the auditor may encounter matters of interest to the governance of the insurer. International auditing standards require such matters to be communicated to those charged with governance.⁸ These may also be of interest to the supervisor. When required by law, regulation or agreement, the auditor also communicates such matters to the supervisor. Where there are no such requirements the auditor should encourage the insurer's management or those charged with governance to do so.

68. The supervisor may sometimes request the auditor of the insurer (or another auditor) to undertake work that assists in the performance of their supervisory roles, such as reporting on whether licensing conditions have been complied with or on the adequacy of the internal control systems.

69. In some countries the insurance supervisor has statutory powers over the appointment of auditors of an insurer, such as the right of approval or removal. These powers are intended to ensure that the auditor has the necessary experience, resources and skills to conduct a reliable audit. Supervisors may also request reasons for changes in auditor and if necessary investigate circumstances that caused an auditor not to be reappointed.

Professional standards and qualifications

70. In accordance with ICP 7, insurance supervisors should require auditors and actuaries of an insurer to be fit and proper to fulfil their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.

71. The advanced criteria "h" and "i" of ICP 7 respectively state:

- "Criteria to assess the fitness and propriety of auditors and actuaries include qualifications, professional proficiency, appropriate practical experience and updated knowledge on developments within their profession and membership of professional bodies.
- In the case of auditors and actuaries, the supervisory authority may give regard to or rely on professional bodies that set and enforce standards of professional conduct."

Supervisors therefore need to consider the following in relation to auditors and actuaries, in respect of both the individuals and firms concerned,⁹ as appropriate:

- Professional qualifications
- Membership of professional bodies
- Continuing professional development
- Compliance with professional standards and guidance
- Professional conduct

⁸ See ISA 260 *Communication with those charged with governance* which provides guidance to auditors on this subject.

⁹ The external audit firm and, if the insurer outsources the actuarial function, the actuarial consultancy firm(s) concerned.

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Professional qualifications

72. Supervisors should ensure that both the actuary and the auditor acting as key functionaries of an insurer have appropriate professional qualifications.

Actuary

73. Unlike the auditor, the actuary working on behalf of an insurer may be an individual employed by the insurer itself or he may be employed by an independent firm.

74. Actuarial qualifications can be obtained through different routes that can differ by jurisdiction. In the UK or US, for example, qualification is obtained through examinations set by an appropriate professional actuarial body. In other countries, such as France, qualification is obtained through the completion of a given set of university courses and examinations set by one of several universities leading to the award of a diploma. Although in some jurisdictions the local actuarial body sets its own syllabus and examinations, other jurisdictions rely on qualifications issued by some of the larger actuarial bodies such as the (US based) Society of Actuaries, the (US based) Casualty Actuarial Society or the (UK based) Institute of Actuaries.

75. Actuaries that carry out a specific regulatory role, such as being the appointed actuary to a life insurer, may in certain jurisdictions require an additional practising certificate specific to that role.

Auditor

76. The audit function is carried out by firms of accountants with the work being signed off by a partner¹⁰ who would be professionally qualified and have a minimum number of years of relevant experience.

77. In some jurisdictions the audit partner can only serve in that function for a maximum number of years, for example five. No comparable requirement exists for an actuary.

78. There are both locally and internationally obtainable accounting qualifications. The ACA qualification, for example, is unique to the Institute of Chartered Accountants in England and Wales (although recognised globally), while the ACCA qualification is granted by the Association of Chartered Certified Accountants, a worldwide body which has links with individual professional bodies in a number of countries. In the US, the CPA qualification is obtained by passing the Uniform CPA examination maintained by the American Institute of Certified Public Accountants.

Membership of professional bodies

79. Supervisors should confirm that actuaries acting for insurers and individual auditors that have signing powers in respect to audits are members of recognised professional bodies.

Actuary

80. Most jurisdictions have their own professional actuarial body, although actuaries working in one jurisdiction may be members of a body in another jurisdiction; some smaller jurisdictions may not have their own professional body. Most of these professional bodies are full members or associate members of the International Actuarial Association (IAA). Associations are only admitted as full members if they meet certain minimum criteria, including having a code of professional conduct, a disciplinary procedure and a minimum set of educational requirements.

¹⁰ The exact designation of the senior audit personnel authorised to sign off the audit report of a set of financial statements may vary between jurisdictions (for instance in some jurisdictions a director or manager may be a signatory).

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Auditor

81. Most jurisdictions have their own professional accountancy bodies, although accountants working in one jurisdiction may be members of a body in another jurisdiction, and some smaller jurisdictions may not have their own professional body. The International Federation of Accountants (IFAC) is the global organisation for the accountancy profession.

Continuing professional development

82. It is important that both individual auditors and actuaries keep their professional knowledge up to date. For members of certain professional bodies, there is a compulsory requirement to record the number of hours spent per year on continuing professional development (CPD) that meet specified criteria to ensure that the minimum requirements are met.

Compliance with professional standards and guidance

83. Supervisors should ensure that both auditors and actuaries who serve insurers regarding their financial reports comply with relevant professional standards and guidance. This requirement could be fulfilled by requiring a specific statement to that effect to be included in audit reports or actuarial reports.

Actuary

84. Actuarial standards and guidance are generally set by individual actuarial associations or by other standard-setting bodies at the national level. Examples are Guidance Notes issued by the Institute of Actuaries of Australia, Actuarial Standards of Practice issued by the US Actuarial Standards Board and by the Canadian Institute of Actuaries, and Actuarial Standards issued by the UK Board for Actuarial Standards. The International Actuarial Association is also developing a set of International Standards of Practice for use with respect to international financial statement requirements. Some of these standards and guidance specifically cover the role of actuaries in relation to audit work and the interaction with the auditor.

Auditor

85. The accounting profession sets a number of standards covering both general-purpose accounting principles and the audit function itself. The International Auditing and Assurance Standards Board (IAASB), established by the International Federation of Accountants (IFAC), sets International Standards on Auditing (ISA). Auditors should comply with relevant national ethical standards as well as IFAC's Code of Ethics for Professional Accountants, as applicable.

86. The International Financial Reporting Standards (IFRS)¹¹ are set by the International Accounting Standards Board (IASB). Although there is a trend towards a universal adoption of IFRS, many individual jurisdictions, which allow or permit reporting under IFRS for listed or public interest companies, retain their own accounting standards for other entities.¹² Some jurisdictions do not yet require or permit reporting under IFRS and rely on local standards. Whilst it is the insurance entities to which the relevant financial reporting standards apply, the auditor's report on the general-purpose financial statements includes an opinion on their compliance with the applicable financial reporting standards.

11 Including the International Accounting Standards (IASs) set by the IASB's predecessor body, the International Accounting Standards Committee.

12 An example is the UK, where local accounting standards are set by the Accounting Standards Board (ASB).

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Professional conduct

87. Supervisors should confirm that where there is reliance on the membership of a professional body by actuaries and auditors, the professional body has an effective disciplinary scheme in force that enables appropriate action to be taken against members that do not follow rules or guidance set by the body.

88. The existence of an effective professional disciplinary process is a prerequisite for an accountancy body having full membership of the IFAC or a national actuarial association achieving full membership of the IAA.

DRAFT