



Institute  
and Faculty  
of Actuaries

# Acting as the auditor's expert in UK insurance audits:

A Guide for Members

by the Regulatory Board

DRAFT

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## 1. INTRODUCTION

- 1.1 When carrying out an external audit of the Solvency and Financial Condition Report (SFCR) (see SS11/16) and to satisfy ISA (UK) 220 - Quality Management for an Audit of Financial Statements<sup>1</sup>, the independent auditor is required to gather “*sufficient appropriate evidence to provide an overall reasonable assurance opinion that the public disclosure in scope complies in all material respects with PRA rules and Solvency II Regulations*”.
- 1.2 The auditor has sole responsibility for the audit, however they may determine that the work of other experts is required to assist in obtaining sufficient evidence to support the audit and this is where they may appoint an actuary as one of their experts.
- 1.3 As set out in ISA (UK) 620<sup>2</sup>, it is the auditor’s responsibility to determine whether they require the work of an expert to inform the audit. If they determine that an expert is required, it is also their responsibility to evaluate that expert’s competence, capabilities and objectivity. This is reinforced in the Prudential Regulation Authority’s (PRAs) Supervisory Statement (SS) 11/16<sup>3</sup> and includes the use of actuaries in an audit.
- 1.4 Although it is the auditor’s responsibility to determine whether they require the work of an expert, the PRA does expect, as a minimum, that when an external audit is being carried out for a firm that writes life insurance business, that the auditor will consult a suitably qualified actuary who is independent of the firm being audited.
- 1.5 An actuary who acts as the auditor’s expert plays an important public interest role and requires significant actuarial knowledge and expertise.
- 1.6 This guidance has been introduced following the withdrawal of the requirement to hold a Practising Certificate for the role of Reviewing Actuary. This guidance may be useful in a broader context to actuaries acting in the capacity as an auditor’s expert.
- 1.7 Please note, the term “you” is used throughout this document to refer to Members.
- 1.8 This document is non-mandatory guidance material; it imposes no obligation upon **you** over and above those embodied in the [Actuaries’ Code](#) or the [IFoA Standards Framework](#). Its purpose is to support Members’ who are acting as the auditor’s independent expert.
- 1.9 This document does not constitute legal advice. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA will not accept any legal liability in relation to its content.

## 2. GENERAL CONSIDERATIONS

- 2.1 If you are approached to act as an auditor’s expert, it is important to first consider whether you have the appropriate level of relevant knowledge and skill for the firm being audited before

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<sup>1</sup> <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-220/>

<sup>2</sup> <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-620/>

<sup>3</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/solvency2-external-audit-of-the-public-disclosure-requirement-ss>

accepting the role. Further details of specific areas to consider for such a role are detailed later in this guidance.

- 2.2 As part of this, you may also take into consideration your ability to consult with others for advice, and the support you will have in carrying out the role.
- 2.3 Once you have determined you have the competence and capabilities to carry out the role, you should consider, to the extent it is appropriate and proportionate, whether it is necessary to have a discussion with your immediate predecessor, if any, regarding the role.
- 2.4 It is important to clearly communicate to the auditor from the outset, the standpoint from which you are acting, and whether you are acting to comply with statutory or regulatory obligations and/or as an employee, director or external adviser.
- 2.5 As the role will require you to carry out your work in a manner consistent with the requirements of the auditor, you should ensure you have a general knowledge of the relevant audit guidance<sup>4</sup>.
- 2.6 If you are supporting a Member who is acting as the auditor's expert, you should ensure that you are aware of the general considerations of those role holders when providing such support.

### **3. ROLE CLARITY**

- 3.1 It is the auditor's responsibility to determine the scope of the audit. You should discuss and agree your duties, and the manner in which they should be carried out, with the auditor. At this stage, it is also normal practice for you to input to the audit planning process in which consideration will be given to:
  - the scope of the work, budget and materiality;
  - the key risks relevant to the actuarial scope of work;
  - the terms of engagement between you and the auditor, if relevant;
  - 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 your conclusions, will take
- 3.2 Although it is the auditor's responsibility to determine the scope of the audit, if the scope is narrower than one you expected, you should advise the auditor of the implications. It is also important to set out any limitations in scope in your conclusions.
- 3.3 When providing advice to the auditor, you should:
  - ensure that it is clear when you are acting in a formal capacity;
  - in respect of the items within scope, advise the auditor on the methods and assumptions used by the Firm and, in particular, on whether they comply with the relevant regulatory requirements (which includes the requirements in respect of generally accepted actuarial practice); and
  - establish 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.

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<sup>4</sup> <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/>

## 4. COMPETENCE

- 4.1 As described above, acting as the auditor's expert requires significant actuarial knowledge and expertise. It is therefore important to consider whether you have the competencies required for the role, and that you have maintained those competencies to a sufficient level to carry out the role for the firm being audited.
- 4.2 You will have to be confident in assessing whether there is sufficient evidence to demonstrate that the actuarial assumptions fall within a reasonable range. Therefore, a sound understanding of the methods and assumptions used by the firm, along with an understanding of what a reasonable range might be, is vital to carrying out the role successfully.
- 4.3 You will also require a sound understanding of other key technical areas, including the capital requirements, the risks the firm is exposed to, the pricing basis and the matching of assets and liabilities.
- 4.4 In addition, maintaining an awareness of relevant external factors that may influence the business, along with an understanding of the different product lines sold by the firm is key to ensuring you are fully informed for the role you are carrying out.
- 4.5 Aside from the technical knowledge, other competencies that are important for the role include applying key judgements and the ability to challenge the views, decisions or actions proposed by the auditor, or senior individuals within the firm, such as the CFO and Chief Actuary.
- 4.6 Where you may disagree with the judgements made by the Chief Actuary due to insufficient evidence, requesting further data evidence from the firm and/or seeking an independent review of your work may be helpful in resolving any disagreements or in validating your conclusion.
- 4.7 Where the firm proposes an action that the Chief Actuary has challenged, you may advise the auditor, but generally not the firm, on this challenge, and should respect the right and duty of the Chief Actuary to make that challenge.
- 4.8 It is good practice to keep a clear written record of your decision-making processes. This can be helpful when responding to a challenge or query, particularly where the matter is of some significance or importance, when particular weight is being placed on your advice, or when you wish to record a difference in opinion.
- 4.9 The Actuaries' Code (the "[Competence and care](#)" principle) and supporting non-mandatory guidance cover the duty of acting with competence and care and provides details of the associated regulatory requirement.

## 5. INDEPENDENCE

- 5.1 Independence is fundamental to the role and the auditor will assess your objectivity prior to making the appointment. Ensuring you have a clear understanding of the auditor's independence requirements and discussing those with them at an early stage is imperative.
- 5.2 As part of the discussions on the auditor's independence requirements, it is likely you will be required to provide written confirmation of your independence, including confirmation that neither you, nor your organisation, have any conflicts of interest.

- 5.3 It is therefore important that you take reasonable steps to ensure you are aware of any relevant interests that might create a conflict, from both your own and your organisation's perspective.
- 5.4 The Actuaries' Code (the "[Impartiality](#)" principle) and supporting non-mandatory guidance provides details of the regulatory requirements associated with conflicts of interest.

## 6. CONFIDENTIALITY

- 6.1 Respecting confidentiality is a key consideration in carrying out any type of actuarial work and when advising the auditor, you will need to observe specific confidentiality requirements, which will include:
- The confidentiality provisions of relevant ethical requirements that apply to the auditor
  - Additional requirements that may be imposed by law or regulation, if any
  - Specific confidentiality provisions requested by the entity, if any
- 6.2 The "[Integrity](#)" principle of the Actuaries' Code and supporting non-mandatory guidance covers the duty of confidentiality and provides details of the associated regulatory requirements.

## 7. COMMUNICATIONS

- 7.1 Effective communication is key to ensuring the information you are providing can be relied upon and will allow the auditor to make informed decisions.
- 7.2 A conversation with the auditor to consider and agree the nature, timing and extent of your procedures with other work on the audit should be carried out at an early stage. It is also helpful at this stage to agree the form of your reporting.
- 7.3 When presenting your information to the auditor, you should ensure the information is clear and concise and that it is set out in a way that is accurate, impartial, and in accordance with relevant professional standards. You should also make sure to include clear explanations for any limitations or uncertainties in your conclusions.
- 7.4 Clear communication is essential in ensuring the auditor has a sufficient understanding of the work you have carried out and that they are able to evaluate that work for their purposes.
- 7.5 The Actuaries' Code (the "[Communication](#)" principle) and supporting non-mandatory guidance provides detail of the regulatory requirements associated with communicating appropriately.

## 8. PROFESSIONAL AND REGULATORY SUPPORT HELPDESK

- 8.1 If you would like the benefit of an experienced panel's views, on a confidential basis, on matters relating to the application of professional standards or ethical dilemmas, please [contact us](#).

## 9. FURTHER QUESTIONS AND INFORMATION

- 9.1 We would be pleased to receive any comments on this document. Comments should be sent to: [regulation@actuaries.org.uk](mailto:regulation@actuaries.org.uk).



# Institute and Faculty of Actuaries

## Beijing

Room 512 · 5/F Block A · Landgentbldg Center · No. 20 East Middle 3rd Ring Road · Chaoyang District  
Beijing · 100022 · People's Republic of China  
Tel: + 86 10 5878 3008

## London (registered office)

1-3 Staple Inn Hall · High Holborn · London · WC1V 7QJ  
Tel: +44 (0) 20 7632 2100

## Oxford

Belsyre Court · 1st Floor · 57 Woodstock Road · Oxford · OX2 6HJ  
Tel: +44 (0) 20 7632 2100

## Singapore

Pacific Tech Centre · 1 Jln Kilang Timor · #06-01 · Singapore 159303  
Tel: +65 8778 1784

[www.actuaries.org.uk](http://www.actuaries.org.uk)

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