ACA Sessional Meeting

Reviewing Actuary – best practice

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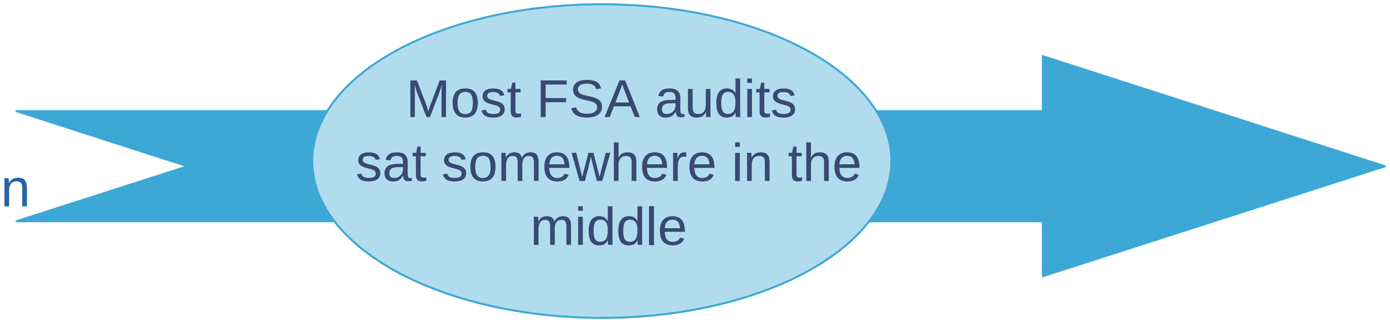
April 2007

Objectives

- Share experiences
- Reflect on changes in “audit” role
- How may this affect other actuarial work

Before Reviewing Actuaries existed….



Level of detail considered depended on:

- Client’s budget
- Whether the company was listed
- Perceived risk
- Management controls
- Other reporting bases covered by audit

The old FSA returns audit opinion

- Excluded Schedule 6 and the abstract from the valuation report
- Specifically relied on the Appointed Actuary’s Certificate

The current FSA returns audit opinion

The auditor’s report states whether, whether, in the auditor’s opinion,:

•The relevant forms, including the supplementary notes in relations to those forms, have been properly prepared in accordance with the Accounts and Statements rules and INSPRU

•The methods and assumptions determined by the insurer and used to perform the actuarial investigation appropriately reflect the requirements of INSPRU 1.2 and 1.3

•to the extent that any document audited contains amounts or information abstracted from the actuarial investigation, the auditor has obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

So what changed?

- Scope widened
  - Parts of Schedule 6 covered by audit including the valuation report
  - Realistic Balance Sheets
- Compliance with rules, not “true & fair”
- Costs increased

What does this mean in practice?

- Data controls
- Each assumption satisfies regulations / best practice
- Valuation methodology satisfies regulations / best practice
- Explain reasons for variation in the results

Audit vs Review

Audit

- Traditional accountants' approach
- Covered by audit standards
- Controls based approach
- Effectiveness and performance of controls tested
- Documented evidence required
- Additional testing of detail for key areas of risk
- Reviewing Actuary should retain sufficient evidence on file to enable a third party to reperform the audit work

Review

- More traditional actuarial approach
- Standards???
- Management controls not fundamental to work
- Reviewer performs own controls
- Evidence is often verbal and not validated
- Level of documentation retained is lower

What has caused the change?

- External environment
  - Enron
  - Equitable
- Internal risk management
  - No ‘review’ opinions
  - Increased challenge from accountants
- Financial Reporting Commission
  - Audit Inspection unit

Drivers of level of audit work in practice

- Not budget!
- Complexity of and inherent risk of the business
- Complexity of admin and valuation systems
- Size of actuarial department
  - Team of 2 versus team of 50
- Number of reporting bases used
  - How many eyes see the results?
  - Reconciliations

Drivers of level of audit work in practice

- Type of reporting bases used
  - SARBOX vs non-SARBOX
- Listing
  - Greater external scrutiny generally means greater internal scrutiny
- Internal vs external actuarial departments/AFH
  - Expected external AFH controls and information to be strong but this is not always the case

Role of the FSA

They set the rules!

But they also need to advise on issues:

- Save questions for big issues
- Use a “no-names” basis but clients can ask directly if they don’t agree
- Generally pretty responsive
- Most useful as confirmation of our position when client doesn’t agree

Guidance notes

- Do they help?
- Do we need rules, guidance and guidance notes?
- What will the impact of the Board of Actuarial Standards be?

Board for Actuarial Standards

- Set up following Morris Review
- FRC delegated responsibility for the independent setting of actuarial standards
- How will this work?
    - Timescales
    - Consultation
    - Working with the FSA
- Impact of Audit Inspection Unit

FRC – actuarial oversight team

- Current projects
  - A review of monitoring and scrutiny of actuarial work to include a survey of firms.
  - developing a wider discussion on the drivers of quality in actuarial work, in conjunction with BAS.

FRC – actuarial oversight team

“ At the end of our review we expect to produce a report which:

- describes the work actuaries do and prioritises the need for monitoring and scrutiny of that work by reference to the risk and impact of poor quality;

- describes the current framework and systems for monitoring that work;

- sets out the review work we have done, in conjunction with others, to consider the adequacy of the various monitoring and scrutiny systems;

- sets out our findings and recommendations to ensure that there is adequate monitoring and scrutiny in cases where there is a significant risk from the impact of poor quality actuarial work.”

Discussion points

Rules vs guidance?

How will the profession, FSA and the BAS work together? (+ACA?)

How should we influence the future?