



KPMG Actuaries

Auditors and Audit Actuaries: Serious but not Scary

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ADVISORY

Auditors and Audit Actuaries: Serious but not Scary

- **Who's who in the actuarial audit process**

- Relationship
- Regulations
- Role of Auditor

- **Serious?**

- Basics
- Concepts
- Opinions and Comments

- **Scary?**

- Objective
- In house actuary's perspective
- Audit assist actuary's perspective

- **Research Papers**

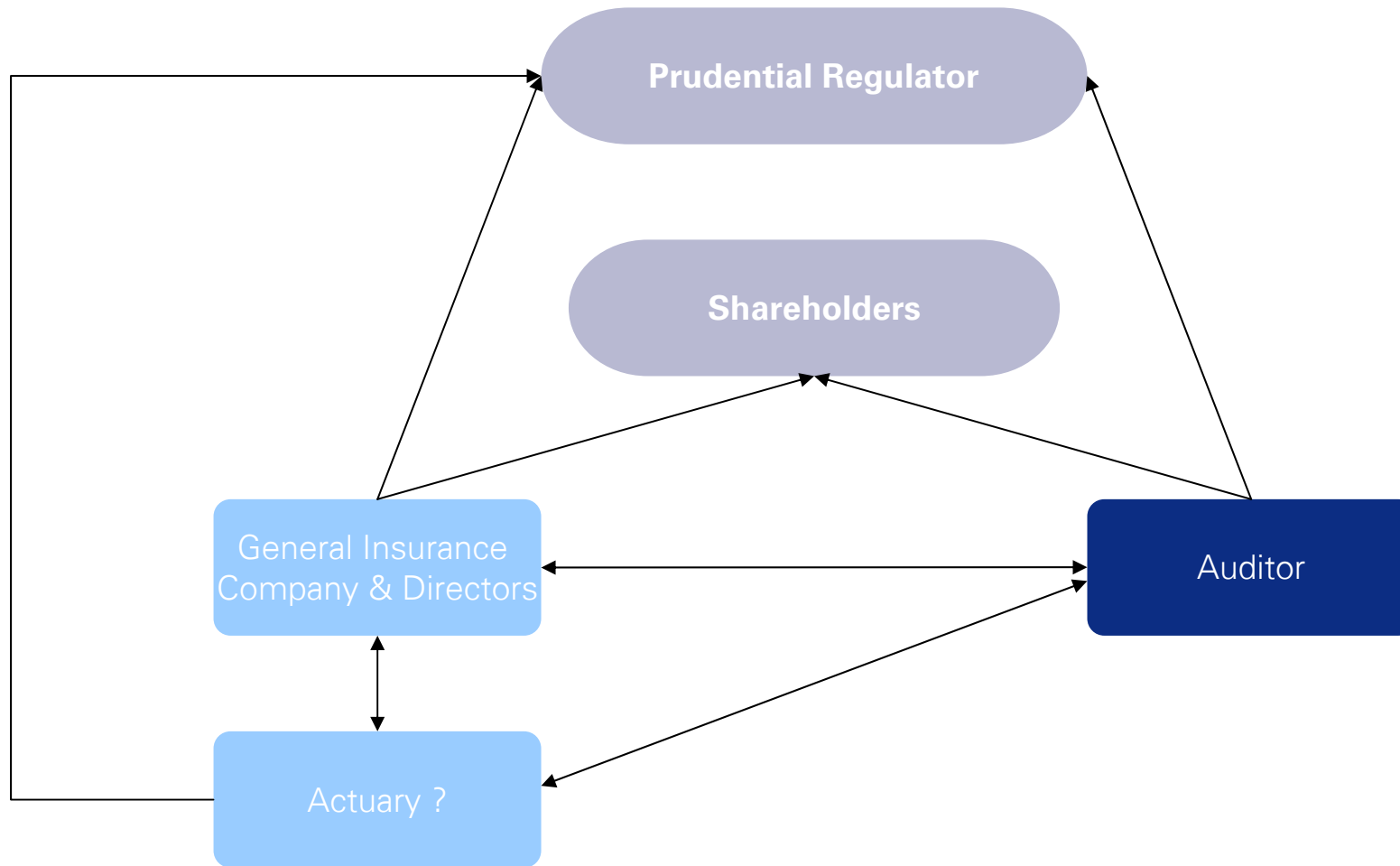
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Who's who?



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Relationship – Prior to the 2nd Millennium



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Regulations

- Intense Development in Insurance Regulations

- Australia, Malaysia, New Zealand and Singapore
- Appointed / Signing Actuary
- Approved Auditor
- Regulatory Returns – Annual / Quarterly
- Documents to be lodged annually: Insurance Liability Report, Financial Condition Report, External Peer Review Report
- Risk Margins
- Auditor's Certificate / Report
- Risk Based Capital
- Stress Testing

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Role of the Approved Auditor

- Broaden the role and responsibilities of the Approved Auditor
 - Financial statements under accounting standards
 - Statutory annual returns (insurance liabilities and statutory capital requirement)
- Key component is the Insurance Liabilities
 - Direct contributor to the Risk Based Capital Calculation
 - Direct contributor to the published profits and losses
- Sign off wordings
 - “prepared in accordance with the provisions of the Act, any Regulations...”
 - “True and fair view of the financial position....”
 - “Estimation of the insurance liabilities based on the valuation methods specified in Part D of the Risk Based Capital Framework...”

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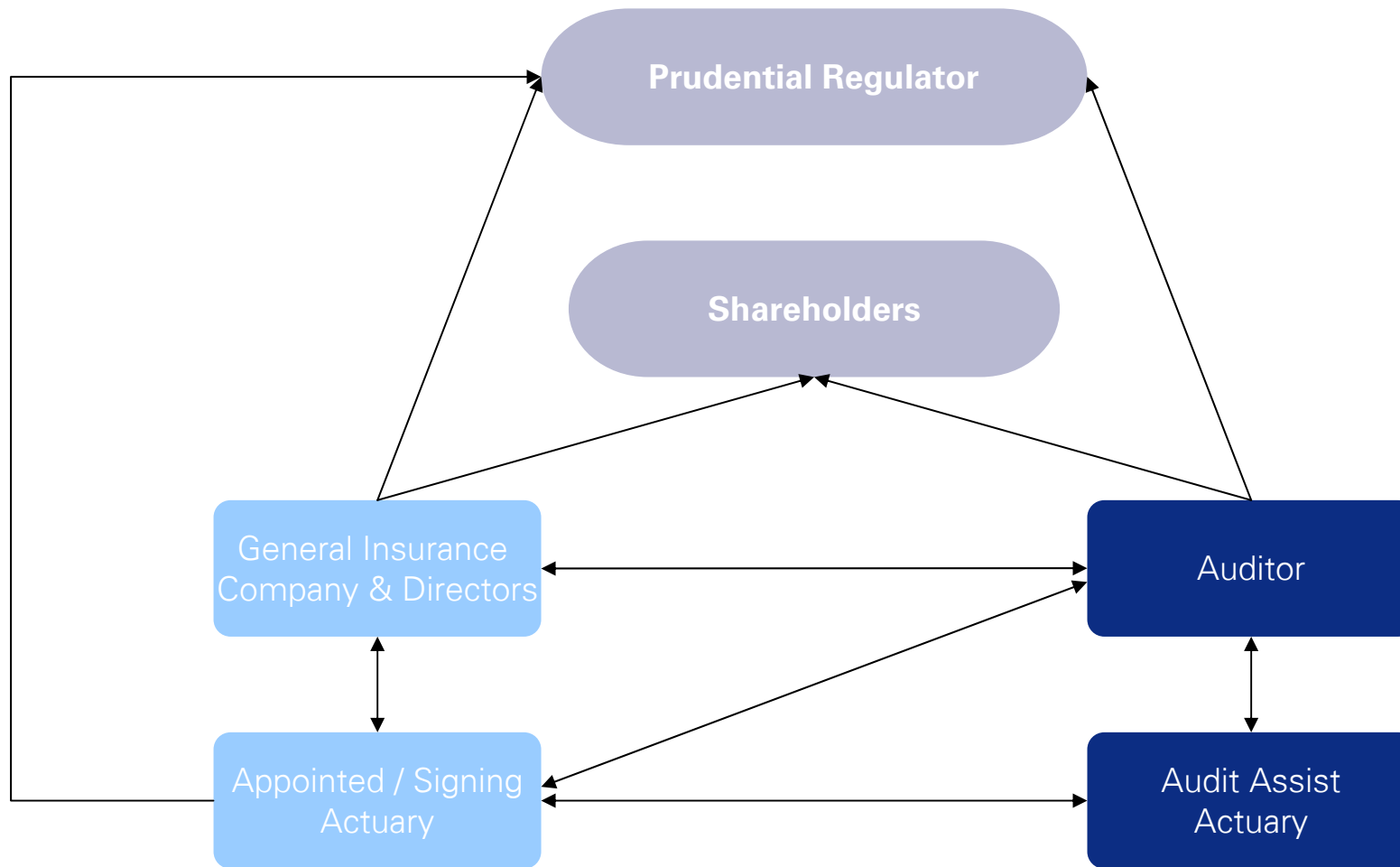
Regulations

- To form an opinion....requires the ability to
 - Read, understand and assimilate the valuation report (which sets out the valuation results, assumptions and processes)
 - Assess the reasonableness of the insurance liabilities determined by the Approved / Signing Actuary
 - Ascertain the risks and uncertainties
- An easier and prudent approach
 - Engaged a technical specialist (a qualified actuary) to perform the review
- External Peer Review
 - Similar to Audit Assist
 - Different scope, purpose and concluding opinions
 - Review building blocks (data, models, analysis, assumptions) that lead to result
 - Specific guidelines
 - Formal report

Actuarial Audit Assist is a growing and important role

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Relationship – 2nd Millennium – Prudential Supervision



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“Serious”

What is Actuarial Audit Assist (“AAA”)?

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The Basics

- What is an Audit?
 - Provides an independent opinion on the truth and fairness of the financial statements of an entity at the period end and of its profit or loss for the period
- How are actuaries involved?
 - Actuary acts as the technical specialist engaged by the auditor
- What protocols guide the Audit Assist Actuaries?
 - The Approved auditor is the client and sets the scope
 - The role is informal, that is non statutory
 - No formal guidance
 - Obvious Experienced in valuation of insurance liabilities !

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Concepts

- Some Important Concepts
 - Materiality
 - Independence
 - Professional skepticism
 - Audit opinion
 - Management letter / Audit board report

***The Audit is the auditor's domain and all play by the auditor's rules.
Yes, it is "serious" business.***

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Opinion

- Results from the actuarial audit review
 - Comments are to Auditor
 - Auditor may or may not highlight issues
 - Negative assurance opinion, that is “not unreasonable”

No news is good news

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“Scary”
How do we do it ?

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Objective

- The key deliverable dependent on the Auditor's scope, requirement and materiality.
- Not performing a second valuation, giving an alternative estimate.
- Objective
 - Form an opinion on the “reasonableness” of insurance liabilities
 - Identify key areas of key risks and uncertainties
 - Assessment of audit differences, if any
 - Benchmarking / comparison with competitors and industry norms.

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Role

- Role

- Broad and high level
 - Breadth and depth where needed
 - What is affecting the business?
 - What matters to the Board?
- Managing complex relationships
- Reviewing professional judgements, which is the fundamental to actuarial work
- “Reasonable and reasoned”
 - demonstrate assumptions follow from tests and analysis
 - Take into account the wider economy, industry, legislation environment

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How do we do it?

- How?
 - Review of the Actuary's report
 - High level review of methodology and assumptions
 - Reasonableness checks of results.
 - Discussions with the Approved / Signing Actuary

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In House Actuary's perspectives

- Observations from practical experience (How to get the auditor off your back!)
- Common questions:
 - Understand their role
 - Clarify your own
 - Play an active part
 - No surprises (both ways)
 - Communicate between valuations
 - Evidence vs Assertions
 - “Why” not just the “what”.
- Some common ‘answers’:
 - High level metrics
 - Management Presentations
 - Commentary on key developments – etc.

The valuation actuary should anticipate this important audience of their work

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In House Actuary's perspectives

- How to benefit from the process?
 - Another point of view
 - High level input
 - Benchmarks / market knowledge
 - Messages to the board / management
 - Control cycle
 - Data reliance
 - Should be mutually beneficial.

When approached openly and constructively, the process is mutually beneficial

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Audit Assisting Actuary's perspectives

- Observations from practical experience:
 - Involve in planning stages
 - Clearly define scope
 - Communicate the issues early
 - Communicate the issues clearly
 - Follow up with valuation actuary
 - Differences in professional judgement is unavoidable
 - key is to recognise and understand each professional's role and responsibilities
 - Tight timetables.

An opportunity to be part of the control framework and to add value

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References

- Presented at the Institute of Actuaries of Australia 2005 GI Seminar
 - Actuaries Assisting Auditors: A State of Play (Jefferson Gibbs and et al)
 - A Background to General Insurance Audit in Australia (Jefferson Gibbs and et al)
- Presented at the Institute of Actuaries of Australia 2008 GI Seminar
 - A stakeholder's assessment of our regulatory regime so far (AA working party)

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Recap

- Recap

- The Approved Auditor is the Audit Assist Actuary's client.
- Audit Assist Actuary has a varied role focusing on high level issues.
- When approached openly and constructively, and well understood, the process is mutually beneficial.
- A constructive approach is best.
- An opportunity to be part of the control framework and to add value.

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Discussion

