



SCOPE OF AUDIT OF SOLVENCY II REPORTING BY INSURANCE UNDERTAKINGS

SURVEY

HIGHLIGHTS

As the new legal framework Solvency II became applicable as of 1 January 2016, the Federation took the initiative to take stock of the current status of the requirement for an audit of the regulatory reporting in the insurance industry across Europe.

The results show that in 12 countries (out of 13) the audit profession is involved in the audit of or assurance on regulatory reporting within the Solvency II regime.

However, there is a clear divergence in the new and/or proposed requirements by the National Competent Authorities (NCAs) which may create doubts about the level of reliability and quality of public disclosures across Europe. In some countries the scope of the statutory audit of insurance undertakings was expanded, while in others the NCAs have decided to leave the decision for an audit of or assurance on Solvency II reporting to the discretion of the insurance undertakings. Furthermore, we have identified that there is a difference in the scope and level of assurance for regulatory reporting requirements (positive or negative assurance).

Concerning the scope, although most countries in our survey require an audit of elements of the Solvency and Financial Condition Report (SFCR), such as own funds (OF), the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), the set of elements varies widely across countries. For instance, in two countries only the balance sheet is subject to an audit.

A harmonised approach would favour the reliability and comparability of the regulatory reporting and disclosures of the insurance undertakings across Europe, especially for those in multinational groups, and therefore contribute to a level playing field in this area.

INTRODUCTION

In 2015, the Federation decided to gather information regarding the status of the involvement of the auditor with the regulatory reporting (Solvency I¹) and on the status of the discussions at national level regarding the potential involvement of the auditor in Solvency II regulatory reporting of insurance undertakings among a selected sample² of EU Member States (Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, and the United Kingdom).

As the new legal framework Solvency II³ became applicable as of 1 January 2016, the Federation took the initiative to update the survey⁴ in order to take stock of the current status of the requirement for an audit of regulatory reporting in the insurance industry across Europe⁵.

Apart from the information that should be provided for supervisory purposes to NCAs, insurance undertakings are obliged under Solvency II to disclose publicly, on an annual basis, a report on their solvency and financial condition⁶. The report shall contain, amongst other elements, a description of the capital management, including at least the following:

- the structure and amount of own funds (OF), and their quality
- the amounts of the Solvency Capital Requirement (SCR) and of the Minimum Capital Requirement (MCR)
- information allowing a proper understanding of the main differences between the underlying assumptions of the standard formula and those of any internal model used by the undertaking for the calculation of its SCR
- the amount of any non-compliance with the MCR or any significant non-compliance with the SCR during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken

The NCAs which decided not to take the benefit from assurance provided by auditors are expected to perform some procedures to ensure the reliability of the regulatory reporting and disclosures of the insurance undertakings they supervise, or to rely on the undertakings to engage voluntarily an external revision, which can significantly differ in nature and depth as this is not a harmonised matter across Europe.

In a wider perspective, the lack of harmonisation can also raise issues of comparability of information and lead to inconsistencies in multinational insurance groups.

Conversely, the provision of audit and related services to insurance undertakings is to some extent resulting from the European Union (EU) laws and regulation. EU Member States often supplement these requirements with initiatives taken at national level, as our survey results demonstrate.

Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 on statutory audits of annual accounts and consolidated accounts (Directive 2014/56/EU)⁷ and Regulation (EU) No 537/2014 of the

¹ First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31973L0239>) and First Council Directive 79/267/EEC of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance (<http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:31979L0267>)

² These countries represent more than 80% of the insurance market in the European Union (in terms of gross written premiums) - <http://www.insuranceeurope.eu/print/statistics/market-share>

³ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0138>

⁴ Luxembourg was included in the 2016 survey

⁵ The information provided is based on the decisions and discussions at national level. The information has been gathered during June to November 2016 and it can change depending on developments in each Member State

⁶ Please refer to article 51 of the Solvency II Directive

⁷ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 on statutory audits of annual accounts and consolidated accounts, amending the Directive 2006/43/EC (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056&from=EN>)

European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (Regulation 537/2014)⁸, lay down the requirements for all statutory audit and for Public Interest Entities⁹ (PIEs), of which insurance undertakings form part, respectively in the EU and European Economic Area (EEA).

It should be noted that Regulation 537/2014 requires a constant dialogue between statutory auditors and supervisory authorities of insurance undertakings.

ANALYSIS OF THE RESULTS

The results show that in 12 countries (out of 13) the audit profession is involved in the audit of or assurance on regulatory reporting within the Solvency II regime.

However, there is a clear divergence in the new and/or proposed requirements by the NCAs which may create doubts about the level of reliability and quality of public disclosures across Europe. In some countries the scope of the statutory audit of insurance undertaking was expanded, while in some other countries the NCAs have decided to leave the decision for an audit of or assurance on Solvency II reporting to the discretion of the insurance undertakings. Furthermore, we have identified that there is a difference in the scope and level of assurance for regulatory reporting requirements (positive or negative assurance).

In the table below, we include the results of the survey regarding the past status of the involvement of the auditor in the regulatory reporting in Solvency I and the current status of the decisions and discussions at national level regarding the potential involvement of the auditor in Solvency II regulatory reporting of insurance undertakings.

In particular, the table reflects the input regarding a range of different fields:

- **past status of the scope of audit of regulatory reporting (Solvency I)**

This field relates to the past status of the scope and level of involvement in audit of regulatory reporting under the Solvency I framework.

- **auditor's involvement in the preparatory phase of Solvency II**

This field relates to the involvement of the auditor in the preparatory phase of Solvency II.

- **scope of Solvency II assurance: Balance sheet, OF, MCR and SCR**

This field relates to the national requirements that have been or are still expected to be introduced for the audit of regulatory reporting of Solvency II (balance sheets (BS), OF, MCR and SCR) and the level of assurance (limited or reasonable).

- **Solvency II assurance: Opening balances**

This field relates to the involvement of the auditor in the audit/assurance of the opening balance sheet for Solvency II (i.e. for the figures on Solvency II balance sheet as at 1 January 2016).

- **Solvency II: Pillar II requirements**

This field relates to whether the national governments or the NCAs are requiring the audit/assurance on disclosures under Pillar II of Solvency II (i.e. risk management).

- **timing of audit reporting**

This field relates to the timing of the involvement of an auditor, i.e. whether the audit/assurance will be finalized on the same date as the statutory audit or whether it can be at a later stage.

⁸Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN>)

⁹ The most recent definition of PIEs is outlined in Article 2 point 13 of Directive 2014/56/EU and broadly covers entities trading on a regulated market, credit institutions and insurance undertakings, and entities designated by Member States

- **Solvency II assurance: Involvement of other professionals – e.g. actuaries**

This field relates to any requirements for the involvement of other professional experts on the assurance aspects of Solvency II requirements for insurance undertakings, for instance actuaries.

- **guidance on the audit of regulatory reporting**

This field relates to whether or not any guidance on the audit of regulatory reporting has been issued or is still expected either from the regulators or the audit profession.

In a more refined analysis, the results show that in the majority of the countries in our survey, the profession was involved in the audit of Solvency I reporting. Nevertheless, only in six countries there was auditor involvement in the preparatory phase of Solvency II.

Regarding the audit of or assurance of regulatory reporting of Solvency II, one can see that in 12 countries (out of 13) the audit profession is involved. However, the results show a divergence in the scope and level of assurance for regulatory reporting requirements (positive or negative assurance)¹⁰.

Concerning the scope, although most countries in our survey require an audit of elements of the Solvency and Financial Condition Report (SFCR), such as OF, SCR and the MCR, the set of elements varies widely across countries. For instance, in two countries only the balance sheet is subject to an audit.

In four countries, the opening balance sheet for Solvency II was audited/assured. In five countries the auditor is required to perform an audit or give assurance of Pillar II requirements (for instance, risk management).

The results also show that the involvement of other professional experts (namely actuaries) with the assurance of Solvency II requirements for insurance undertakings is limited to four countries (one partially).

Finally, only in seven countries some guidance on the audit of regulatory reporting is expected.

For a more detailed overview of the responses, the table in the **Appendix** can be consulted.

Note: The information presented in the Appendix has been provided by certain of Accountancy Europe's member bodies. Accountancy Europe, therefore, disclaims any responsibility for the completeness or accuracy of this information.

¹⁰ These types of assurance represent different approaches in terms of the procedures and opinion issued by the auditor. Positive assurance means that certain facts are reasonable and fairly stated and therefore free from material errors. On the contrary, negative assurance means that certain facts are believed to be accurate since no contrary evidence has been found

APPENDIX

Country / General remarks	Past status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: Balance sheet, own funds, MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries	Guidance issued from regulators or the profession on the audit of SII reporting
Austria * The new requirements have been enacted	<p>The profession was involved in the audit of Solvency I reporting.</p> <p>The profession was involved in the audit of Solvency I reporting.</p> <p>Any assurance on Solvency I reports was part of the long form auditors report.</p>	<p>No, the profession was not involved.</p> <p>The audit profession was not involved in this phase.</p>	<p>The profession will be involved in audit of:</p> <ul style="list-style-type: none"> • SFCR, especially Solvency II balance sheet • MCR/SCR • own funds <p>Positive assurance addressed to the NCA, as from year ends 2016.</p>	<p>There were not any specific audit requirements for opening balances.</p>	<p>Yes, the profession is involved.</p> <p>Negative assurance as from year ends 2016.</p>	<p>The insurance undertakings have to submit our audit report end of May at the latest. The law does not specifically address when our appendix to our audit report, covering Solvency II, has to be submitted.</p>	<p>There is no requirement for the involvement of other professionals.</p>	<p>Guidelines from the profession have been approved.</p>
Belgium *The new requirements have been enacted	<p>Yes, the profession was involved in the audit of Solvency I reporting.</p> <p>The requirements included an annual audit of Solvency I reporting and a review on a semi-annual basis.</p>	<p>Yes, the profession has been involved in this phase.</p> <p>The profession has been asked by the NCA to report back whether the Solvency II reporting (as of 31 December 2014 and as of 30 September 2015) is prepared in line with the requirements.</p>	<p>The profession is involved.</p> <p>Belgian Law requires the external auditor of an insurance undertaking to:</p> <ol style="list-style-type: none"> 1. Perform a review (ISRE 2410) of the half year prudential reporting (as of 30 June) to the NCA. 2. Perform an audit of the full year prudential reporting (as of 31/12) to the national competent authority. 3. Perform procedures over an assessment performed by management over the governance in place at the undertaking. 		<p>Yes, the profession was involved.</p> <p>Under Solvency I auditors were required to perform control procedures over the internal control self-assessment prepared by management, which include, among others, Pillar II elements.</p>	<p>In respect of Solvency I reporting, it used to be at the same time as reporting on the financial statements.</p> <p>The latest three weeks before the annual general meeting (AGM).</p>	<p>Actuaries were involved.</p> <p>For the seven biggest insurance undertakings and in respect of the submission as of 31 December 2014, the NCA has asked external actuaries for their assessment on the best estimates.</p>	<p>Some guidance will be issued by National Bank of Belgium. In substance, economic balance sheet / SCR / MCR / own funds & narratives are in scope.</p>

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		This includes all the elements of Pillar III disclosures.	In respect of SCR and when the undertaking is using an internal model: <ul style="list-style-type: none"> - the external auditor will (only) need to review / audit inputs and outputs of the internal model (no opinion to be given on the model itself) The NCA requested such undertaking to provide with the SCR calculated using the standard formula as of end of 2016 and as of end 2017. The external auditor is required to audit said SCR.			Deadlines will be updated soon (we expect shorter deadlines).		
Denmark * Statutory order on Audit and Financial Reports have been updated aligned to implementation of S II	Yes, the profession was involved in the audit of Solvency I reporting. Only Solvency I reporting disclosed in the statutory annual accounts (Base capital and Solvency I requirement) were subject to audit as part of the audit requirement of the annual report.	The profession has not been directly involved in this process.	Some audit requirements for Solvency II reporting. There are no audit requirements of Solvency II stand-alone balance sheet. The Danish NCAs have however incorporated the Solvency II balance sheet as part of the “executive order” on which Danish insurance undertakings are required to prepare their statutory accounts.	No specific audit requirements for opening balances. No other than the comments mentioned under scope of Solvency II assurance.	The profession is involved. According to the Danish Executive order on auditing, auditors are required to make statements to the Danish NCAs based on specified minimum work on a number of Pillar II items for example internal controls.	Not yet defined.	Actuaries are involved. Required involvement of actuarial knowledge in the audit of insurance undertakings for statutory audit.	None other than the general statutory order on auditing of financial companies.

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			Having said that, some exceptions are available and therefore the Solvency II additional requirements for financial reporting are not mandatory. Currently the MRC and SCR, which are reported in the statutory Annual Reports, are exempted from statutory audit.					
France * The new requirements have been enacted	Not specific requirements. Some requirements existed under Solvency I to communicate to the auditors certain reports prepared by insurance undertakings but they were not subject to audit or assurance requirement	The profession was involved in this phase though the marketplace working parties but no direct involvement required at the insurance undertakings level.	No specific audit requirement for any of these 3 areas. Although the NCAs expressed their preference to have some assurance on the regulatory reporting, no such requirement has been introduced as a part of the legal and regulatory transposition and no process has been started to implement such a requirement otherwise. Insurance undertakings will be left with the responsibility to decide whether they will ask for some assurance on the SFCR, based on industry best practices, and this is expected to bring divergence in practice. Also, the voluntary submission to audit procedures may create issues in respect of the non-audit fee cap introduced by the European Audit Reform.			Not applicable as there are not any specific audit requirements.	There is no specific requirement for the involvement of other professionals.	No guidance issued.

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	as such. Auditors' involvement was generally restricted to the audit of financial statements which formed the basis for Solvency I quantitative requirements. Group solvency could be subject to additional assurance, at the NCA's discretion.							
Germany * The new requirements have been enacted	No, there was no requirement for the auditor to audit regulatory reports, apart from the statutory financial statements which were the basis for determining own funds.	The profession has not been involved in this phase.	Yes, the profession will be involved in audit of Solvency II reporting. As from 2016 and onwards audit of balance sheet (reasonable assurance).	There are not any specific requirements for audit of opening balances. Not a requirement, however, some insurance undertakings asked for involvement of auditors on a voluntary basis.	There are not any audit requirements specifically for Pillar II.	Separate reports, which will allow finalizing audit of Solvency II - balance sheet after audit of statutory accounts.	There are not any specific requirements for the involvement of other professionals.	A regulation on the content of auditor's long form reports is being developed by Ministry of Finance; draft has been published and consulted. German institute will consult publicly on a draft audit standard in due course.

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Italy * The new requirements have been enacted	No, the profession was not involved in the audit of Solvency I reporting. An audit was only conducted on IFRS consolidated financial statements and on individual financial statements based on local GAAP (used for dividend distribution purposes and for supervisory purposes).	The profession was involved in this phase. Based on the latest unofficial draft regulation, the NCA (IVASS) will mandatorily ask to insurance undertakings to have external auditors verifying S II figures. (standard formula and undertaking specific parameters (USP data)).	Full audit of market value balance sheet (MVBS) (risk margin excluded) and OF, individual and consolidated, plus the relevant disclosures is required.			End of May 2017 (expected).	There are not any formal specific requirements for the involvement of other professionals. It is clear that the profession does believe that the involvement of the actuaries is necessary.	Not expected.
Luxembourg * The new requirements have been enacted	Yes – the profession was involved in Solvency 1 assurance. The auditor was required by regulation to issue a separate Special Regulatory Report for all insurance and reinsurance undertakings,	The profession provided input and advice regarding the preparatory phase of Solvency 2 through participation in working groups, and direct advice. However, no involvement required at the insurance undertakings.	To date, the NCA has expressed its wish to have some form of assurance on certain key specific balance sheet captions for yearend 2016. The NCA is currently defining this scope of work for 2016 year end, which is expected to take the form of Agreed Upon Procedures (AUP).	No specific requirements were requested for opening balances for 2016.	No specific assurance requirements to date.	To date, no new reporting deadlines have been announced. The previous regulatory deadlines (for insurance undertakings and auditors) was end April.	Auditors are required to use their own experts in key areas of their assurance work, for both statutory and regulatory purposes and reporting. These experts include their own: - actuaries; tax specialists and IT systems experts.	The NCA will define the scope of the work required for Solvency 2 reporting purposes. The auditor should perform the procedures that it considers appropriate in accordance with professional standards to meet the scope as defined.

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	which provided some assurance (not audit) on certain key Solvency 1 ratios and other compliance matters.		For the subsequent years' regulatory reporting, it is not yet defined, but expected to become a phasing in process where assurance may be extended progressively.					It is expected that the profession is likely to issue certain guidance there on, as appropriate, to ensure consistency.
Netherlands * The new requirements have been enacted	There was an audit requirement of Solvency I reporting.	The profession was not involved in this phase.	The profession will be involved. The profession is asked to audit: <ul style="list-style-type: none"> • MVBS • technical provisions • premiums/claims/expenses per branch, Own Funds • SCR (SF & (P)IM) • MCR and stat P&L. The audit profession performed AUP on Day One reporting.	The profession was involved. AUP were performed.	There are no specific audit requirements for Pillar II.	Aligned with SII reporting by insurance undertakings.	There are no specific requirements for the involvement of other professionals.	NBA Alert 40 providing high level audit guidance was published on 1 December 2016.

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			<p>There is ongoing dialogue with the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA) and Dutch Central Bank on technical topics, but also on the scope, the auditor's report, long form reporting and materiality setting (2-5% percent of the SII ratio depending on the level of capitalization).</p>					

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Poland * The new requirements have been enacted	No specific requirements The audit profession was not involved in the audit of Solvency I reporting. Only the audit of statutory financial statements falls within the scope of statutory audit.	The profession was not involved in this phase.	The profession will be involved in the audit of Solvency II reporting. Solvency II assurance will include the audit (reasonable assurance) of balance sheet, own funds, MCR and SCR.	The profession was not involved in this phase. However, it was expected that the continuity principle in the context of Solvency II requirements would be reviewed during the 2015 financial statements audit.	No specific requirements.	No specific requirements.	No specific requirements for Solvency II assurance (but general requirement of audit standards to use professionals exists).	Not yet issued.
Portugal * The new requirements have been enacted	The profession was involved in the audit of Solvency I reporting. The auditors were required to perform a limited review of the financial and statistical information (which includes Solvency I) to be submitted to the NCA.	The profession was involved in this phase. The auditors were required to issue a yearly report on the adequacy of the risk management and internal control system, driven by Pillar II requirements.	Different elements included Certification includes balance sheet, qualitative explanation between the accounting and economical balance sheet, own funds and capital required.	Regulation published in May 2016. Certification of opening information required.	Yes, there are requirement for audit of Pillar II. The auditors are required to issue a yearly report on the adequacy of the risk management and internal control system, driven by Pillar II requirements. The procedures include the analysis of the risk management and internal system reports prepared by the insurance undertakings to be submitted to the NCA.	Timing already defined. Individual entities – 30 th September; Groups – 31 st October.	Yes, actuarial certification report required. Actuarial certification of topics related to balance sheet (e.g. Technical provisions) and capital required (e.g. underwriting risk) required	Scope defined by the NCA. No guidelines from the profession.

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	The auditors were also requested to perform audit procedures over the Solvency I information disclosed in the statutory financial statements.							
Spain * The new requirements have not yet been finalised	The profession was involved in auditing of the financial statements which includes some of Solvency I reporting. The Quantitative Reporting Templates (QRTs) in Solvency I were not submitted to audit. However, the financial statements, submitted to audit, include the Solvency states (with less detail than the QRTs).	The profession was not involved in this phase. The auditors were not involved in this phase.	- 2016: Revision only of economic balance sheet by 12/31; - 2017 onwards: Revision of economic balance sheet, own funds, and SCR, with special emphasis on recuperability test of deferral tax.			Not clear yet.	Actuaries will be involved.	Not clear yet.

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Sweden * The new requirements have been enacted	The profession was not involved in the audit of Solvency I reporting.	The profession was not involved in this phase.	The profession is not involved in the audit of the SFCR. There is a requirement to disclose own funds, MCR and SCR in the report of the board of directors which is a separate section of the annual report. This section of the annual report is subject to audit under a local audit standard similar but not identical to ISA 720 (Other Information). An audit opinion with reasonable assurance is issued on the annual report as a whole (including the report of the board of directors).	The profession was not involved in audit of opening balances.	There are no specific audit requirements for Pillar II.	No requirement to report.	No involvement of other professionals.	No.

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<p>UK</p> <p>* The new requirements have been enacted.</p>	<p>The profession was involved in the audit of Solvency I reporting.</p> <p>In the UK insurance undertakings reported their capital position annually in a separate public reporting document. This document was subject to audit requirements as required by the Prudent Regulatory Authority's (PRA's) rules.</p>	<p>The profession was involved in this phase.</p> <p>For those insurance undertakings proposing to use internal models and some of the large insurance undertakings using the standard formula the auditors were asked by the PRA to provide positive assurance over the Solvency II balance sheet as at 31 December 2014 in the preparatory phase. This was a one-off request.</p>	<p>An audit of elements of the annual public reporting (SFCR) is required.</p> <p>The PRA has published rules which require a full audit of a subset of the annual SFCR (publicly available information) for both solo insurers and groups.</p> <p>What is required to be audited is the quantitative templates and narrative disclosures in respect of: MCR, SCR (standard formula - only), balance sheet and own funds. For firms with a full or partial internal model the SCR, and any information derived from it, is not subject to audit.</p>	<p>None mandated by the PRA.</p>	<p>None mandated by the PRA.</p>	<p>Aligned with date of publication of SFCR.</p> <p>The PRA's rules require that the auditors' report is disclosed publicly with the insurer's SFCR.</p>	<p>As a minimum the auditor is expected to involve an actuary in the audit of life insurance undertakings' SFCRs.</p> <p>PRA guidance indicates that, as a minimum, for insurance undertakings that write life business, auditors will obtain and pay due regard to advice from a suitably qualified actuary who is independent of the insurance undertaking.</p>	<p>Draft guidance for auditors has been published.</p> <p>The UK Financial Reporting Council (FRC) has consulted on draft guidance to support audits of the SFCR.</p> <p>Following a consultation period that closes in December 2016 it is anticipated that the FRC will issue final guidance early in 2017.</p>

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			<p>The audit requirement applies for all financial years ending on or after 15 November 2016.</p> <p>There is no audit requirement in respect of the annual or quarterly private reporting to the PRA.</p>					

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