



19 May 2009

Mr. Henning Göbel  
Chair, Accounting Subcommittee International  
Association of Insurance Supervisors  
c/o Bank for International Settlements  
CH-4002 Basel  
Switzerland

By email: IAIS Secretariat  
[peter.windsor@bis.org](mailto:peter.windsor@bis.org)

Ref.: INS/HvD/LF/SR

Dear Mr. Göbel,

**Re: FEE Comments to IAIS Draft Paper on the Roles of and Relationship between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports**

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IAIS Draft Paper on the Roles of and Relationship between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports ("the Paper").

**General comments:**

- (2) As exemplified in our specific comments below, the responsibilities of the actuary and the legal environment governing the operations of the actuary vary from jurisdiction to jurisdiction. We wonder whether it is feasible to cover such a divergence in general terms, as proposed in the Paper. We note that the Paper discusses the insurer's actuary in a functional capacity and not the individual actuaries' responsibilities within an insurer for which different jurisdictions may have specific requirements.

- (3) The scope of the Paper describes that the main focus of this Paper is with respect to the preparation and audit of financial reports, and that some aspects could be discussed at greater length within a broader context. It is not clear to us in what context the Paper is drafted: is it addressing only financial reporting (statutory financial statements) or also regulatory reporting? We assume that the Paper addresses mainly financial reporting.
- (4) The Paper notes that some aspects may be the subject of further work by the IAIS in the future, for example on the relationship between the supervisor and the external auditor. As representatives of the accountancy profession in Europe, we are happy to elaborate this further with you.

### **Specific comments:**

#### **Scope**

- (5) We understand as is set out in Paragraphs 8 and 9 that the purpose of the Paper is to describe good practice regarding the relationships between the actuary and the external auditor from the perspective of the insurance supervisor and that it is not intended to impose requirements upon either the actuary or the external auditor regarding their professional relationship with each other. To avoid any misunderstanding of the status of this Paper, e.g. phrases like "...the actuary and the auditor should request..." are best avoided. The wording needs to be adapted to the purpose of the Paper, i.e. providing guidance in the form of best practice, not a standard with requirements to be addressed.
- (6) Paragraph 12 states that the actuary referred to in this Paper is either employed by the insurer (or affiliated company) or contracted by the insurer and may be referred to as the "insurer's actuary". Our understanding is that this covers both the actuary providing input into the financial reporting process (reserving actuary) and the actuary providing a professional opinion outside the audit (opining actuary). In our view, each section or paragraph of the Paper needs to clarify which type of actuary is referred to, since this is key in particular for some of the issues mentioned below. Footnote 12 to Paragraph 43 clearly indicates the importance of such differentiation.

#### **Actuary**

- (7) Paragraph 23 of the Paper describes the actuarial skills. In this context, we find that the Paper could be clarified in that these skills are also competences that auditors need to have to carry out the audit of financial statements.

- (8) Paragraph 24 of the Paper highlights that the actuary involved in the financial reporting process needs to be sufficiently objective, not under significant management influence, and have sufficient understanding of the governance structure and internal control environment, the business and risk environment and the purpose for which the report has been prepared. Guidance on how the criterion “sufficiently objective” could be fulfilled would be helpful.
- (9) Paragraph 25 of the Paper states that “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”. As this Paper is issued in the context of insurance undertakings the word “often” may be deleted.
- (10) Regarding Paragraph 26 of the Paper on the use of actuarial expertise in preparing accounting estimates or other data, we strongly agree that this does not reduce the responsibility of the external auditor in expressing an opinion on their appropriateness within the context of the financial statements as a whole.
- (11) Regarding Paragraph 27 of the Paper on the use by the external auditor of actuarial expertise within the audit process, we support the statement that it does not reduce the responsibility of the company’s management, for ensuring the involvement of an adequately skilled insurer’s actuary in the preparation of financial reports.

#### **External auditor**

- (12) Paragraph 43 states that an actuary acting on behalf of the insurer (the "insurer's actuary") should not be permitted to work simultaneously for the external auditor (the "auditor's actuary"), and vice versa, to protect the objectivity of both. This is an example of a paragraph where it is important to clarify whether the actuary is an opining actuary or a reserving actuary. Footnote 12, states “In the US, the auditor’s actuary is permitted to act as the insurer’s appointed actuary (i.e. as opining actuary, but not the reserving actuary), provided that sufficient internal controls over the work of the reserving actuary are in place.” This footnote contradicts in our view Paragraph 43. Paragraph 43 should be amended.
- (13) We suggest that Paragraph 43 should be elaborated to reflect explicitly that external auditors are subject to independence rules and codes of conduct that may prohibit an external auditor from relying on the work and expertise of the actuary acting on behalf of the insurer for the external audit (the “insurer’s actuary”).
- (14) In addition, we are of the opinion that the guidance in Paragraph 43 on "cooling off periods" might be more appropriately placed in the section on Actuaries.

### ***Communication - Between the insurer's actuary and the external auditor***

- (15) We query the validity of the stated principle that the insurer's actuary should request information from the external auditor (Paragraph 48). Such a flow of information from the auditor to the actuary depends on the position that the actuary has within the financial reporting process (e.g. opining versus reserving actuary) and the legal environment of the actuary as well as the confidentiality requirements applicable to the auditor. In addition, the use of information obtained from the auditor by the reserving actuary may raise doubt about the independence of the auditor.
- (16) Regarding Paragraph 51 e. of the Paper about the actions that the external auditor would ordinarily perform when he intends to place reliance upon the work of the insurer's actuary, and in particular in relation to the sharing of his findings with the insurer's actuary, we note that the degree to which an external auditor shares his findings with the insurer's actuary depends on the role of the insurer's actuary and the legal requirements concerning the confidentiality of information. Usually the information from the auditor is directed to the company's management/board of directors and/or supervisory board.

### **Reporting**

- (17) Paragraph 56 recommends that a report of the opinion by the actuary and the external auditor should be included within the financial report, where the amounts determined by the actuary are significant. If the external auditor expresses an opinion that opinion will be annexed to the financial report in all circumstances.

### **Relationship between external auditor and insurance supervisor**

- (18) Regarding Paragraph 69 on the fact that the external auditor may encounter matters of relevance to the governance of the insurer in performing the audit, we are of the opinion that when the external auditor is not required by law, regulation or agreement to communicate matters of relevance on the governance of the insurer to the supervisor, it is primary the responsibility of the supervisor to encourage the insurer's management to report such matters to the supervisor. The external auditor can be instrumental in encouraging the issuer's management or those charged with governance to do so.

### **Professional standards and qualifications**

- (19) Paragraph 74 of the Paper addresses the advanced criteria "h" and "i" of ICP 7 on competencies and qualities of auditors and actuaries. We believe that it is of importance to note that auditors are subject to strict independent rules (see IFAC Code of Ethics) and subject to internal and external quality control. The organisation of quality control is different in various countries. There are two main systems:

- a. external monitoring system or inspections (carried out by staff people of the supervisory authority); and
  - b. monitored peer review (professional in practice under appropriate supervision of authorities).
- (20) We observe that major accounting firms are also registered with the US PCAOB and are subject to the strict US independence rules in case of US listed audit clients.

For further information on this letter, please contact Ms. Saskia Slomp from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written in a cursive style. The signature is positioned above a horizontal line that extends to the right.

Hans van Damme  
President