



Financial Reporting Council

18 May 2022

Feedback on the actuarial aspects of insurance entity audits

Dear Sir/Madam

In performing audits for insurers, actuarial specialists or experts are routinely utilised to advise audit engagement leaders (“auditors”) on actuarial matters in relation to the audit of the financial statements¹. Based on recent experience from conducting Audit Quality Review (“AQR”) inspections across various audit firms, I am writing to set out a number of areas where further attention may be needed. I encourage you to share and discuss the contents of this letter with your actuarial specialists and experts to identify any areas of improvement that may be needed. This letter has been sent to the Insurance Business Unit leaders at the largest eight audit firms in the UK.

Professional Scepticism

The actuarial specialists and experts must perform their audit work with professional scepticism, as required by provision 19 of [TAS 200](#), and requirement 15 of [ISA \(UK\) 200](#).

We observed from some recent AQR inspections that some actuaries performing audit work were not as effective as they needed to be in terms of challenging the actuarial work carried out by the actuaries at the audited entity, and were not sufficiently sceptical when assessing the judgements made by the actuaries at the audited entity. Some examples of this are set out below:

- Where reinsurance contracts appear to offer very little risk transfer, or where the terms and conditions of a reinsurance contract appear unusual, for example where a contract is signed and agreed significantly later than the inception date. In these cases, we would expect the actuaries at the audit firm to take a sceptical approach and challenge the judgements, assumptions, and models used at the audited entity.
- Where work performed for the audited entity by external consultants (such as an independent review of the technical provisions) was relied upon by the audit team without evidence of challenge by the actuarial specialists and experts in the audit team.

¹ See Practice Note 20 (Revised 2017) *The audit of insurers in the United Kingdom*, paragraphs 164-188. This sets out relevant considerations for the auditor when working with actuarial specialists and/or experts, including the application of ISA (UK) 620 (Revised 2019) *Using the work of an auditor’s expert*.

- Where work performed at the audited entity was relied upon by the audit team without evidence of challenge, or independent review, by the actuarial specialists and experts in the audit team. This included items such as analysis of change models, adjustments introduced by management at audited entities, and work around expenses.

There were also instances where the FRC did conclude that the actuaries performing audit work did apply an appropriate level of professional scepticism, but this was not made sufficiently clear through evidence in the actuarial working papers or actuarial reports within the audit file.

Structure and Comprehensiveness of the Audit File

Audit teams can appoint their actuarial advisers as specialists or experts and this choice will have implications on how the audit file is structured. Actuarial advisers appointed as specialists will store all their working papers on the audit file, and these will be available for the FRC to review as part of the AQR inspection. Actuarial advisers appointed as experts will set out the conclusions and details of the work performed in a report which will be included in the audit file, whilst the working papers will not form part of the audit file.

The audit file should contain sufficient evidence to support the conclusions drawn as required by [ISA \(UK\) 500](#). We observed from some recent AQR inspections that where the actuarial advisers were appointed as experts, the report included in the audit file did not contain all the relevant information and evidence to support the conclusions. We encourage audit teams to ensure that the audit file contains a comprehensive body evidence so that an independent view can be formed solely from the information in the audit file.

Interaction between the Actuarial Teams at the Audit Firms and the Actuarial Teams at the Audited Entity

In some recent AQR inspections we observed that there was a lack of evidence in the audit file of any interaction between the actuaries within the audit teams and the actuaries at the audited entities. This could be due to a lack of interaction, or that the interactions were not recorded within the audit file.

The interaction between the actuarial team at the audit firm and the actuarial team at the audited entity is important to help enable the audit firm to provide appropriate challenge on the key judgements, assumptions, and modelling approaches used by the audited entity.

We encourage audit teams to ensure that any such interactions are fully evidenced in the audit file, for example:

- Evidence of critical review by the actuaries within the audit team of key analyses produced by actuaries at the audited entity.
- Records of discussions or exchanges on questions raised by the actuaries within the audit team.
- Evidence of any representation by the actuaries within the audit team at Audit Committee meetings where audit recommendations have been discussed.

If you would like to discuss the contents of this letter, please contact your usual supervisory contact at the FRC.

Yours faithfully

Mark Babington

Executive Director, Regulatory Standards