GN7(ROI): THE RELATIONSHIP BETWEEN THE APPOINTED ACTUARY AND THE AUDITOR OF A COMPANY TRANSACTING LONG-TERM INSURANCE BUSINESS

Classification (see APC)

This Guidance note is classified in relation to the code of professional conduct as *best practice*.

Scope

Republic of Ireland.

Application

Appointed Actuaries.

Legislation or Authority

This Guidance Note has been issued to give advice to Appointed Actuaries on the Auditing Guideline *Life Insurers in the Republic of Ireland* issued by the accountancy bodies in the Republic of Ireland in April 1993. This gives guidance to auditors on the special factors to be considered in the application of Auditing Standards to life insurers in the Republic of Ireland.

First Issued

April 1995.

1. Copies of the Auditing Guideline *Life Insurers in the Republic of Ireland* are available from the accountancy bodies.

2. The Appointed Actuary should familiarise himself with the contents of the guideline and, in general, with the responsibilities of the auditor under the Companies Acts 1963-1990, the Insurance Act 1989 and the European Communities (Life Assurance) Framework Regulations 1994. In particular, he should be aware of the auditor's duty, in certain circumstances, to report to the Department of Enterprise and Employment on matters coming to his attention in his capacity as the auditor of an authorised insurer.

3. The Appointed Actuary has no defined role under the Companies Acts. The purpose of this guidance in these circumstances is to give assistance to Appointed Actuaries in their relationship with auditors in the light of the Auditing Guideline.

4. It is important for Appointed Actuaries to appreciate that life insurers are permitted to draw up accounts under Part III of the Sixth Schedule of the Companies Act 1963 and may thus take advantage of the disclosure exemptions available under that schedule. Thus the audit objective as regards the long-term fund is to be satisfied that it is at least sufficient to meet all policyholder liabilities.

5. In relation to the amount of the long-term liabilities and any distribution of surplus the Auditing Guideline states in paragraph 86 that the auditor's objectives will be:

   "to obtain reasonable assurance that the assets of the long-term fund are not less than the related liabilities;

   to establish whether, if a surplus in any fund has been ascertained, either its amount or the proportion distributed to shareholders has been materially affected by a change in the valuation approach or assumptions or by exceptional circumstances that may require disclosure in the financial statements, having particular regard to the exemptions contained in Part III of the Sixth Schedule of the Companies Act 1963; and to satisfy himself that, in the case of a proprietary insurer, any distribution of surplus made by the insurer complies with Section 15 of the Insurance Act 1989 and with the articles of association."

6. The accountancy bodies recognize that the valuation and certification of the liabilities under long-term business for the purposes of the European Communities (Life Assurance) Framework Regulations 1994 is the sole professional responsibility of the Appointed Actuary; there is no question of an auditor having power to require an Appointed Actuary to alter his valuation basis. However, the auditor should understand, as a reasonable person but not as an expert, the objectives which an actuary will have in mind when making a formal investigation of the financial condition of the long-term business. Some guidance to the auditor in his relationships with other specialists is given in the separate Auditing Guideline *Reliance on other Specialists*.

7. The Appointed Actuary should be willing to participate in the audit and other procedures as described in paragraphs 50 to 102 of the Auditing Guideline. He should be willing to discuss with the auditor any relevant reports he has made to the directors of the company, including his valuation of the long-term liabilities, to enable the auditor to form the opinions on which he bases his audit report. As regards the auditor's objectives set out in paragraph 5 above, the Appointed Actuary should regard a change in the valuation approach as arising when the choice of valuation basis or methods affects the emergence of surplus so that, to a material extent, the surplus does not reflect the emerging experience. In addition, the auditor should be informed of the extent to which surplus may have been affected by any material releases from or additions to actuarial liabilities arising from a change in the valuation method or basis whether or not this constitutes a change in the valuation approach.

8. Paragraphs 109 to 122 discuss the exceptional reports which auditors might make to the Minister for Enterprise and Employment under Section 35 of the Insurance Act 1989. Section 35(1) obliges the auditor "to report to Minister in writing without delay" if the auditor has reason to believe "that there exist circumstances which are likely to affect materially the insurer's ability to fulfil its obligations to policyholders or meet any of its material financial requirements under the Insurance Acts" or "that there are material defects in the financial systems and controls or accounting records of the insurer which are likely to have that effect". Normally the auditor will act in these situations in a manner that will preserve his professional relationship with the insurer (and its Appointed Actuary) by discussing the matters about which he is concerned before reporting to the Minister for Enterprise and Employment. In addition, the auditor is required by Section 35(1) to report to the Minister in writing without delay if he proposes to qualify any certificate which he is to provide in relation to financial statements or returns of the insurer under the Companies Acts or the Insurance Acts or if he decides to resign or not seek re-election as auditor.

9. Circumstances may similarly arise when the Appointed Actuary, following the professional guidance given in paragraph 3.2 of Guidance Note GN1(ROI) *(Actuaries and Long-Term Insurance Business),* may report direct to the Department of Enterprise and Employment after so informing the company. In such circumstances he should also consider whether it would be appropriate to discuss the matter with the auditor.

10. The co-operation envisaged by this guidance should avoid a situation in which the auditor, through lack of information, feels obliged to qualify his audit opinion.