

Supervisory Statement | SS11/16

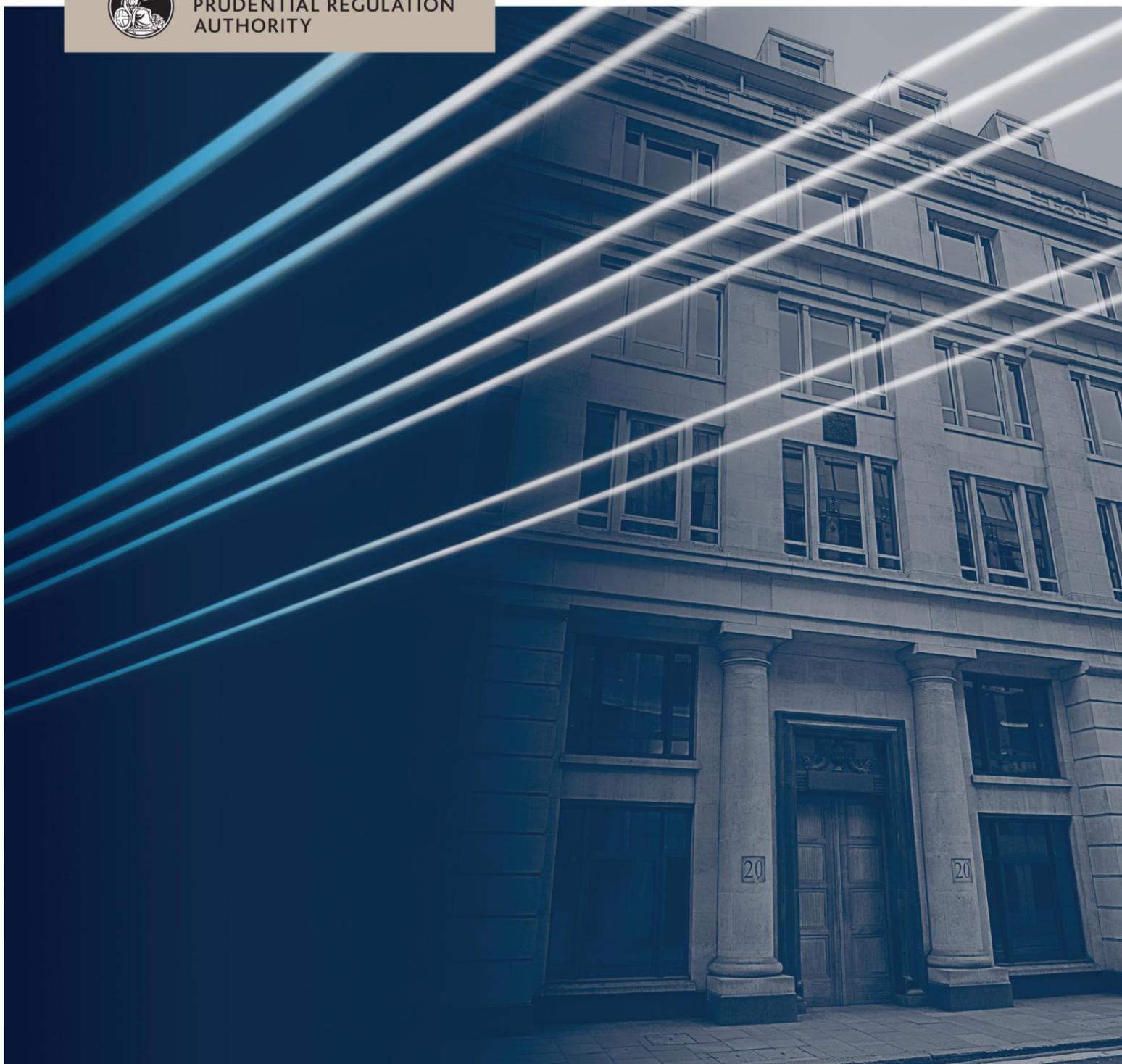
Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement

October 2018

(Updating September 2016)



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1 Introduction

1.1 This Prudential Regulation Authority (PRA) supervisory statement is relevant to firms in scope of Solvency II, including the Society of Lloyd's (collectively 'insurers'), and the auditors of those firms. It reminds the governing body of its responsibilities in respect of the ongoing appropriateness of the information disclosed, and that it must approve the Solvency and Financial Condition Report (SFCR). It also sets out the level of assurance expected with respect to the external audit requirement on the SFCR and the audit guidance that the PRA expects auditors to follow in auditing a firms' SFCR. It should be read alongside the External Audit Part of the PRA Rulebook. The parts of this supervisory statement that relate to the external audit of the SFCR are not applicable to '*small insurers for external audit purposes*' and '*small groups for external audit purposes*', as set out in External Audit 1.1.

1.2 By clearly and consistently explaining its expectations of insurers and audit firms in relation to the particular areas addressed, the PRA seeks to advance its statutory objectives of ensuring the safety and soundness of the firms it regulates, and contributing to securing an appropriate degree of protection for policyholders. The PRA is legally required, so far as is reasonably possible, to facilitate effective competition in the markets for services provided by PRA authorised persons in carrying on regulated activities. The PRA has considered matters to which it is required to have regard, and it considers that this supervisory statement is compatible with the Regulatory Principles and relevant provisions of the Legislative and Regulatory Reform Act 2006. This supervisory statement is not expected to have any direct or indirect discriminatory impact under existing UK law.

2 Governing body's responsibility for the SFCR

2.1 The Reporting Part of the PRA Rulebook requires that an insurer must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the insurer must ensure that its SFCR is subject to approval by its governing body.¹ Therefore the PRA expects the governing body to take responsibility for ensuring that the SFCR has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations.

2.2 As well as having a written policy in place to ensure the ongoing appropriateness of any information disclosed, the PRA expects that the governing body should be satisfied that:

- (a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
- (b) it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply, and will continue so to comply in future.

2.3 The PRA expects the governing body to acknowledge and evidence in writing its responsibility for the SFCR and make this available to potential readers of the SFCR by signing the SFCR and attaching the written acknowledgment to the SFCR.

¹ Reporting Part, Rule 6.1(2) Reporting Part, Rule 6.2(1).

3 Level of assurance and scope

3.1 External audit of the SFCR refers to an independent auditor gathering sufficient appropriate evidence to provide an overall reasonable assurance opinion that the public disclosure in scope complies in all material respects with PRA rules and Solvency II Regulations. Reasonable assurance is a high level of assurance described in relevant auditing standards.² It is achieved when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is the risk that the auditor expresses an inappropriate opinion when the SFCR is materially misstated) to an acceptably low level. External Audit 2.2 describes the relevant elements of the public disclosure in scope in the 'Valuation for solvency purposes' and 'Capital management' sections of the SFCR subject to the two exemptions. First, the Solvency Capital Requirement (SCR) and information that derives from it, is exempt if calculated using an approved full or partial internal model (External Audit 2.2(3) and 2.2(4)). Secondly, where Solvency II requires information in the SFCR to be produced using sectoral rules (External Audit 4.2 explained in paragraph 3.3 below).

Information in the group SFCR from EEA and non-EEA undertakings

3.2 PRA rules apply whenever a SFCR is disclosed, whether at the solo or, where relevant, at the group and sub group level. Information from EEA and non-EEA undertakings included in the SFCR will therefore be within scope for external audit (except where the information in the group SFCR has been compiled in accordance with sectoral rules).

Information in the group SFCR compiled in accordance with sectoral rules

3.3 Where information for the group SFCR is compiled in accordance with sectoral rules (as required under Solvency II), the group auditor should undertake an assessment of whether that information has been properly extracted in accordance with the relevant sectoral rules, from information provided to the insurer by other undertakings of the insurance group and from the insurer's own records. An external audit of sectoral information is not required.

Approvals, waivers and supervisory determinations

3.4 The auditor is not expected to express an opinion on the validity of an approval, waiver or other supervisory determination. Instead approvals, waivers and supervisory determinations provided by the competent authority should be considered as part of the framework against which the audit opinion is being given. For the purposes of transitional measures on technical provisions, Pillar 1 and 2 assets, liabilities and capital calculated in accordance with the previous regime, should be treated as part of the framework against which the audit opinion is being given.

Other information in the SFCR public disclosure

3.5 External Audit 4.1(3) requires that the auditor read and consider all information disclosed by the firm in its SFCR that is not subject to the reasonable assurance opinion as a relevant element of the SFCR (other information) to identify material inconsistencies with the relevant elements of the SFCR and any knowledge obtained during the course of the audit of the SFCR engagement, and (where applicable) audit of the financial statements. When complying with this rule, the PRA expects the auditor to follow 'International Standard on Auditing (UK) 720 (Revised June 2016) The Auditors Responsibilities Relating to Other Information'.³

² International Standard on Auditing (UK) 200, paragraph 5, [https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-\(UK\)-200-Revised-June-2016.pdf](https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-(UK)-200-Revised-June-2016.pdf).

³ International Standard on Auditing (UK) 720 (Revised June 2016) The Auditors Responsibilities Relating to Other Information, [https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-\(UK\)-720-Revised-June-2016.pdf](https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-(UK)-720-Revised-June-2016.pdf).

4 Audit guidance

General

4.1 The PRA notes that standards and guidance for auditors are issued by the Financial Reporting Council (FRC) which apply to non-statutory audit engagements of the type required by the PRA's rules. The PRA would normally expect auditors to comply with relevant standards in such engagements. The PRA therefore regards compliance with International Standards on Auditing (UK) (ISAs (UK)) as the primary means by which auditors will be able to demonstrate that they have complied with the External Audit Part of the PRA Rulebook.

4.2 Auditing standards and guidance will be updated by the FRC from time to time. We note that the FRC is currently consulting on ISA 800 and ISA 805, which, if they are adopted by the FRC, would be relevant for reporting on the engagements required by the PRA's rules on audit of the relevant elements of the SFCR.⁴ The PRA may update this supervisory statement accordingly as appropriate.

Use of actuaries

4.3 ISAs (UK) specify that the auditor shall determine whether, to obtain sufficient appropriate audit evidence, he or she should use the work of an auditor's expert, and should evaluate the expert's competence, capabilities and objectivity. As a minimum, for firms that write life insurance business, the PRA expects that auditors, in undertaking the external audit, will obtain and pay due regard to the work of a suitably qualified actuary who is independent of the firm.

⁴ Consultation Document And Impact Assessment: Proposal to adopt (in the UK) ISA 800 (Revised) and ISA 805 (Revised), <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Consultation-and-Impact-Assessment-Proposal-to-ad-File.pdf>.

Appendix: Solvency II public disclosure – narrative sections and templates and associated PRA expectations

The table below lists the elements of the SFCR and highlights which are considered to be part of the ‘relevant elements of the SFCR’ and which should be treated as ‘other information’ in accordance with ISA (UK) 720 (Revised June 2016).

Article	Title	Assurance
293	Business and performance	Other information
294	System of governance	Other information
295	Risk profile	Other information
296	Valuation for solvency purposes	Relevant element*
297	Capital management	Relevant element*
359	Group solvency and financial condition report	Relevant element* valuation and capital management sections
Templates		
S.02.01.02	Balance Sheet	Relevant element*
S.05.01.02	Premiums, claims and expenses by line of business	Other information
S.05.02.01	Premiums, claims and expenses by country	Other information
S.12.01.02	Life and Health SLT Technical Provisions	Relevant element*
S.17.01.02	Non-Life Technical Provisions	Relevant element*
S.19.01.21	Non-life insurance claims	Other information
S.22.01.21	Impact of long term guarantees and transitional measures (MCR)	Relevant element*
S.22.01.22	Impact of long term guarantees and transitional measures (SCR)	Relevant element*
S.23.01.01	Own funds	Relevant element*
S.23.01.22	Own funds	Relevant element*
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula	Relevant element
S.25.01.22	Solvency Capital Requirement - for groups on Standard Formula	Relevant element
S.25.02.21	Solvency Capital Requirement - for undertakings using the standard formula and partial internal model	Other information
S.25.02.22	Solvency Capital Requirement - for groups using the standard formula and partial internal model	Other information
S.25.03.21	Solvency Capital Requirement - for undertakings on Full Internal Models	Other information
S.25.03.22	Solvency Capital Requirement - for groups on Full Internal Models	Other information
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity	Relevant element*
S.28.02.01	Minimum Capital Requirement - Both life and non-life insurance activity	Relevant element*
S.32.01.22	Undertakings in the scope of the group	Relevant element
* SCR calculated using an internal model is out of scope		

Annex – Updates to SS11/16

This annex details changes made to this Supervisory Statement (SS) following its initial publication in September 2016, following Policy Statement (PS) 24/16 ‘Solvency II: external audit of the public disclosure requirement’.⁵

15 November 2018

Following publication of PS25/18 ‘Solvency II: External audit of the public disclosure requirement’,⁶ the following changes were made:

- The title was changed to ‘Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement’.
- Paragraph 1.1 was updated to include reference to the small insurer’s SFCR audit exemption.
- References throughout the SS to the External Auditors Part of the PRA Rulebook (or ‘External Auditors’) were corrected to ‘External Audit’.
- The references in paragraph 3.1 for ‘External Auditors 2.3 and 2.4’ were corrected to ‘External Audit 2.2(3) and 2.2(4)’.

⁵ September 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency-2-external-audit-of-the-public-disclosure-requirement>.

⁶ April 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-external-audit-of-the-public-disclosure-requirement>.