**Preface**

The purpose of this working program is to document possible audit/assurance procedures planned and performed in respect of the economical balance sheet to be prepared under Solvency II. It has been prepared based on the assumption that an audit opinion has been issued on the IFRS consolidated financial statements or on the BEGAAP statutory financial statements. As a consequence, we can rely on the audit work performed on the IFRS Consolidated financial statements or on the BEGAAP statutory financial statements in our capacity as statutory auditor of the Company in so far the Solvency II framework does not deviate from these principles (rely on means that no additional work is to be performed by the practitioner for items for which the Solvency II framework is consistent with IFRS/BEGAAP). Therefore, this audit program only covers the incremental procedures to be performed on the Solvency II economical balance sheet.

IFRS consolidated financial statements:

For the economical balance sheet, the primary objective for valuation is an economic valuation for the assets and liabilities which should be market consistent. In most cases IFRS is considered to provide valuation consistent with principles of Solvency II. For those assets and liabilities that IFRS does not foresee in an economic valuation as envisaged by Article 75 of Directive 2009/138/EC (“Solvency II Directive”) the technical specifications issued by EIOPA provides specific guidance ). We refer to the table in attachment 1 to this audit/assurance program that includes for all assets and liabilities other than technical provisions a comparison of the measurement criteria under IFRS with the measurement criteria to be applied under Solvency II. The audit work to be performed on the technical provisions is covered in separate audit/assurance programs (i.e. best estimate + risk margin).

BEGAAP statutory financial statements:

The BEGAAP statutory financial statements are not prepared based upon a market consistent approach, but rather on a “historical” basis. However, the market-consistent valuation of the investments held by insurance undertakings is also covered during the audit of the periodic returns (covering assets, impairment review, unrealized gains used in the solvency margin) and the annual accounts (market values are disclosed, impairment review). As a consequence, a significant part of the work to be performed on the Solvency II economical balance sheet is also covered during the audit work performed on the annual accounts and periodic returns for insurance undertakings that are not required to prepare IFRS consolidated financial statements. If for certain balance sheet items BEGAAP would be applied for the measurement of assets and liabilities, an explicit link is to be made in the current audit program to the work performed by the auditor in the context of his mandate as statutory auditor.

This working program is composed of two parts. The first part deals with the reliance that can be placed on internal controls. For the various components of the reporting process, typical internal controls that can be expected to be in place have been listed. These lists are however not to be considered as exhaustive and should be tailored to each specific assignment. The auditor’s evaluation over internal controls covers both the evaluation of the design and implementation of the internal control identified and the evaluation of the operating effectiveness of internal controls for which the design has been assessed as effective.

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. Procedures to obtain audit evidence about the design and implementation of relevant controls may include inquiring of entity personnel, observing the application of specific controls, inspecting documents and reports and tracing transactions through the relevant information system (walk through). Inquiry alone, however, is not sufficient to evaluate the design and implementation of relevant controls. When evaluating the design and implementation of a control, the auditor considers the objective of the control (which also addresses the risk, including fraud risk, it helps to mitigate), how it is performed and documented, including the nature and size of the potential misstatements addressed and end-user computing considerations, the nature of the control, whether the control addresses a fraud risk, how frequently it is applied, the knowledge, experience and skills of the person performing it (if a manual control or a manual control with an automated component), the related IT application, if any, size and complexity of the entity, the auditor’s existing knowledge of the entity's internal controls and the nature and extent of changes in the systems and operations.

Testing the operating effectiveness of controls is performed only on those controls for which the auditor believes that those are suitably designed to prevent, or detect and correct, a material misstatement in an assertion. The following audit procedures may be used, often in combination, to obtain audit evidence about the operating effectiveness of controls: inquiry, observation, inspection, re-performance and recalculation. Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry.

The second part deals with the additional substantive procedures to be performed. The determination of the extent of substantive procedures is dependent on the operating effectiveness of internal controls. This part of the program is based on the assumption that full reliance can be placed on internal controls identified in the first part of this working program (given the fact that both the Solvency II framework and article 42 of the Law of March 13, 2016 require that the insurance undertaking must have a system of internal control adapted to the nature, size and complexity of the business and risks related to their activity). Full reliance means that sufficient controls have been put in place by management to address the risks inherent in the process and the practitioner has evaluated that these controls are working effectively. In case that certain internal controls would be missing or that certain internal controls are not operating effectively, these substantive procedures require further completion, by designing and performing procedures (based on the controls identified in the first part of this document) substantively. This part also requires further customization to the specific characteristics of the insurance company. In attachment 2, a non-exhaustive list of substantive procedures has been attached to this working program that the auditor can use for the selection of additional substantive procedures in case for certain internal controls the design and/or operating effectiveness would be evaluated as “non-effective”.

**PART I – INTERNAL CONTROLS TESTING**

| **Control reference** | **Anti - fraud control** | **Significant account/ disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Evaluation of the control’s design and implementation** | | **Evaluation of the control’s operating effectiveness** | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Results of evaluation of design and implementati on** | **W/P Ref** | **Control description** | **Results of test(s) of operating effectiveness** | **Done by and date** | **W/P Ref** |
| 1 |  |  |  |  |  |  |  |  |  |  | Management review of the economical balance sheet, including a high level analytical review compared to the previous reporting period and assessing/validating fluctuations from one period to another |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | For Underwriting, Technical provisions, Reinsurance, Investments and Financial statements closing :  - Obtain an understanding of policies and procedures in place  - Identify controls, understand their design and determine which are relevant/key  - Test the efficiency of relevant/key controls  - Conclude on design and effectiveness of relevant/key controls |  |  |  |
| 2 |  |  |  |  |  |  |  |  |  |  | Reconciliation of own funds reported in the economical balance sheet with (audited) IFRS financial statements (or BEGAAP financial statements in the case that no IFRS reporting is prepared) and validation of differences between the (audited) IFRS (BE GAAP) financial statements and Solvency II principles. |  |  |  |
| 3 |  |  |  |  |  |  |  |  |  |  | Review of the IFRS financial statements (or BEGAAP financial statements in the case that no IFRS reporting is available) and identification/justification of differences/measurement basis in accordance with the BNB/NBB Circulars, and more specifically **BNB/NBB Circular 2016\_28** and **BNB/NBB Circular 2016\_8** |  |  |  |

**PART II - SUBSTANTIVE TESTING**

We assess the inherent risk and control risk for the audit/assurance objective and provide a rationale for the related assessment. Based on our assessments of the inherent risk and control risk, we assess the risk of significant misstatement (RoSM) arising from error for each audit/assurance objective. [KAM ]

We also document specific inherent risks and other risks not mitigated by controls relating to this audit/assurance objective in the table below. These risks are considered when determining the nature, timing and extent of substantive procedures to be performed for this audit/assurance objective.

Effective entity level controls support the RoSM assessments. However, deficiencies in entity level controls could undermine the effectiveness of some of the control activities and therefore may require us to amend upwards our assessment of RoSM for some or all audit/assurance objectives.

We use the RoSM matrix when assessing RoSM for each audit/assurance objective. If we determine that a lower (or higher) RoSM than that suggested by this matrix is appropriate, we can make such a choice of RoSM provided the decision is appropriately documented and justified. [KAM ]

| Rationale for risk of significant misstatement assessment | | Risk of significant misstatement (ROSM) |
| --- | --- | --- |
| Inherent risk | Inherent risk is assessed as significant considering the judgment and the complexity involved for the determination of a market-consistent balance sheet. | **LOW**  **MEDIUM**  **HIGH** |
| Control risk | To assess the control risk based on the audit team’s evaluation over the design, implementation and operating effectiveness of controls identified in the preparation of the Economical balance sheet. |

| AP Reference | Nature, timing and extent of audit/assurance procedures | Significant account / disclosure | Reference to Solvency II regulations | Done by and date | W/P Ref |
| --- | --- | --- | --- | --- | --- |
|  | ***Substantive analytical procedures*** |  |  |  |  |
|  | No substantive analytical procedures to be performed (covered by section “Internal Controls”) |  |  |  |  |
|  | ***Tests of details*** |  |  |  |  |
| 1 | Verify the audit opinion provided on the IFRS or BEGAAP financial statements. In case that a qualified or negative audit opinion has been issued, assess its potential impact on the economical balance sheet and the audit opinion to be issued on the economical balance sheet. | Economical balance sheet |  |  |  |
| 2 | In-depth review and validation of the equity reconciliation prepared by the Company between the IFRS or BEGAAP financial statements and the economical balance sheet. | Economical balance sheet |  |  |  |
| 3 | For each item of the economical balance sheet compare the applied measurement with the measurement applied in the audited IFRS or BEGAAP financial statements, and assess whether the deviation (or consistency) is appropriate and in line with the technical specifications (see attachment 1 of this Audit/Assurance program) and the related BNB/NBB Circulars. | Economical balance sheet | General references   * **BNB/NBB Circular 2016\_8** and **BNB/NBB Circular 2016\_28** * Articles 7 – 16 of the Delegated Regulation 2015/35 |  |  |
|  | Pay specific attention to the following:   * all Goodwills should set to 0 EUR * the Intangible assets should be set to 0 EUR   Check for the non eliminated intangible assets the following conditions: they can be sold separately and that the holder is able to demonstrate the existence of a market value for these assets or similar assets => these assets can be appraised at this value |  |  |  |  |
| 4 | For each item of the economical balance sheet, assess its appropriate presentation and classification in the economical balance sheet in line with the Solvency II framework. | Economical balance sheet | See references above and BNB/NBB Circular 2017\_27 (Data Quality) |  |  |
| 5 | For each item of the economical balance sheet, assess the need to perform additional audit procedures on top of the audit procedures performed in the light of the audit of the IFRS or BEGAAP financial statements. | Economical balance sheet |  |  |  |
| 6 | When no IFRS financial statements are prepared, the IAS 19 liability accrued for in the economical balance sheet is still subject to audit procedures. In case that an external expert has been engaged by the Company to perform the actuarial calculations, the work of the external expert should be reviewed using the guidance set forth in ISA 500 “Audit Evidence” (which is broadly consistent with ISA 620 “Using the work of an auditor’s expert”). Audit procedures on the IAS 19 liability should least include:   * Review the work performed by the external expert using the guidance referred to above (competence, objectivity, independence, adequacy of the work performed) * Verify the completeness and accuracy of the census data used for the calculations * Verify the appropriateness of the applied assumptions * Perform an analysis on the evolution of the results * Consider the necessity to perform an independent calculation.   Remark: This procedure is based on the assumption that the IAS19 calculation is externalized (which is common practice in the Belgian insurance market). In case the IAS19 calculation is internalized, this procedure should be adapted accordingly | Economical balance sheet | General references   * IAS19 |  |  |
| 7 | Assess the recoverability of accrued deferred tax assets (DTA) in accordance with the technical specifications (which are based on IAS 12 Income Taxes) and Guidelines issued in BNB/NBB Circular 2016\_28. | Economical balance sheet | General references   * BNB/NBB **Circular 2016\_28** (guidance 9) |  |  |
| 8 | Ensure that the identification and the treatment of related undertakings, including participations is in accordance with the Delegated Regulation and the related BNB/NBB Circulars |  | Delegated Regulation 2015/35 – Article 68, 168 and 171 (and amendment on these articles by EC/2019/981)  **BNB/NBB Circular 2016\_08**)   * Guidelines 1 to 3 – Identification of related undertakings, participations, and strategic participation * Guideline 4 & 5 - Scope of calculations and calculation for Article 68 of Delegated Regulation 2015/35 * Guideline 6 & 7- Deductions in respect of participations in financial and credit institutions. * Guidelines 8 & 9 - Application of the standard formula and internal model to related undertakings |  |  |
| 9 | For the valuation of financial liabilities, verify if the valuation excludes any adjustment to take account of changes in the undertaking’s own credit standing after initial recognition. |  | Guidelines on recognition and valuation of assets and liabilities other than technical provisions (NBB/BNB Circular 2016\_28 and Circular 2016\_8) |  |  |
| 10 | Reconcile the technical provisions included in the economical balance with the outcome of the audit procedures included in the audit/assurance programs on the best estimate and risk margin. | Economical balance sheet |  |  |  |
| 11 | When no IFRS financial statements are prepared, use standardized IFRS checklists in order to ensure that all differences between the BEGAAP financial statements and the economical balance sheet have been identified. | Economical balance sheet |  |  |  |
| 12 | Review the QRT’s relating to the economical balance sheet, reconcile with underlying schedules and check that presentation is consistent with the relevant principles and guidance | Economical balance sheet |  |  |  |
|  | Update and amend, if appropriate, the assessment of RoSM and the rationale, and re-evaluate the planned audit/assurance procedures. |  |  |  |  |