**Preface**

The purpose of this working program is to document possible audit/assurance procedures planned and performed in respect of the minimum capital requirement (MCR).

This audit program contains procedures relating to internal controls, substantive audit procedures and analytical procedures. The extent of detailed testing is not specified and should be determined based on the nature of the procedure, the inherent risk assessment and the outcome of internal control testing.

We note that this program is based on the assumption that sufficient testing (both internal controls and substantive) has been performed on the underwriting, claims, actuarial, reinsurance and other operational processes of the insurance undertaking by the auditor during the audit of the statutory accounts and/or periodic returns. As a result, this working program only covers the additional procedures to be performed by the auditor in order to obtain reasonable assurance on the calculation in accordance with Solvency II principles and the technical standards issued by EIOPA

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 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. Three different categories of controls are used: operating controls, IT controls and model governance controls. The auditor’s evaluation over internal controls covers the 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 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). 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 by reference to known sampling methods (statistical sampling, non-statistical sampling, attribute sampling). This part also requires further customization to the specific characteristics of the insurance company. In appendix, 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”.

Attention is also drawn to the fact that this program is based on the assumption that sufficient testing (both internal controls and substantive) has been performed on the underwriting, claims, actuarial, reinsurance and other operational processes of the insurance company by the auditor during the audit of the statutory accounts / periodic returns. As a result, this working program only covers the additional procedures to be performed by the auditor in order to obtain reasonable assurance on the best estimate calculations in accordance with Solvency II principles and the technical standards issued by EIOPA.

Abbreviations used in this document

For the assertions C, E, A, V, O, P: **C**ompleteness, **E**xistence, **A**ccuracy, **V**aluation, **O**wnership, **P**resentation

EUC: End User Computing

**Collaboration with independent control functions and other experts**

During the execution of the audit/assurance procedures on the SCR calculations, the statutory auditor will contact, inquire and review the reports of the different independent control functions in order to ensure that recommendations / remarks issued by these control functions have been properly addressed by the insurance undertaking for the calculation of the best estimate.

It is required that the statutory auditor inquires the internal audit function in order to assess to what extent internal audit has performed any audit assignments with respect to the SCR calculations performed by the insurance undertaking.

When the statutory auditor decided to rely (partly) on the work performed by internal audit, the actuarial function or any other (management) expert, it follows the requirements set forth in ISA 610 “*Using the work of internal audit*” and/or ISA 500 “*Audit Evidence*” (which is broadly consistent with ISA 620 “Using the work of an auditor’s expert”). In this context it is to be noted that the auditor has the sole responsibility for the assurance report expressed, and that responsibility is not reduced by the auditor’s use of internal audit and/or expert. Once the auditor has determined to use the work of internal audit or an expert, it will:

* evaluate the competence and capabilities of the internal audit function/expert;
* evaluate the objectivity of the internal audit function/expert;
* obtain an understanding of the internal audit function’s /expert’s field of expertise;
* agree terms of the collaboration (in particular the scope of the work, which should be consistent with the procedures indicated in this working program);
* evaluate the adequacy of the work performed (including review of working papers prepared and if deemed necessary re-performance of procedures).

**PART I – INTERNAL CONTROLS TESTING**

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| **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 implementation** | **W/P Ref** | **Control description** | **Results of test(s) of operating effectiveness** | **Done by and date** | **W/P Ref** |
| **IC 01** |  | MCR |  |  |  |  |  |  |  |  | **General**   * Understand the undertaking’s process of calculation, analyzing, validation and approving MCR.   Identify and test key internal controls in this process.   * Review decision and documentation process for correctly applying the technical specifications for calculating MCR (interpretations, decision process for applying simplifications …).   **IT related controls**   * General IT controls. * Automated controls on interfacing between administrative / accounting / modelling systems used for the calculation of the MCR. * Controls for data input into EUC applications (if any). |  |  |  |
| **IC 01** |  | MCR |  |  |  |  |  |  |  |  | **Input data**   * Controls relating to data quality. * Assess adequacy of inputs used for MCR calculation. * Data Governance controls on decisions in the data structuring process, especially on authorization, documentation and rationale. * 4-eyes principles (e.g. on major corrections, adjustments and manual entries).   **Calculation**   * Assess adequacy of MCR calculation with technical specifications provided by EIOPA * Manual calculation steps:   4-eyes principle on performed manual calculation steps.   * Automated SCR calculation steps: * Test and approval process of the automated model scope & design. * Review of conceptual design incl. comparison to the initial scope and assessment on implications to the overall model environment * Test and approval of the model implementation. * Checks and controls based on the company’s model change guidelines: |  |  |  |

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| **IC 01** |  | MCR |  |  |  |  |  |  |  |  | **Validation controls and assessment of results**   * Governance controls on authorization & review. * Documentation and rationale especially regarding sufficient assessment of stability and robustness of results. * Plausibility checks on results. * Management review on results. |  |  |  |

**PART II - SUBSTANTIVE TESTING**

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| **Rationale for risk of significant misstatement assessment** | | **Risk of significant misstatement (ROSM)** |
| Inherent risk | Inherent risk is assessed as significant.  Due to the significant uncertainty and judgments involved, there is inherent risk in the calculation of the long-term business amounts. Provisioning directly impacts on solvency, capital adequacy and the going concern assumption. Additionally, specific inherent risk of miscalculation of best estimates including lack of control over actuarial modelling and inappropriate choice of assumptions. | **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 reserving process (see chapter I Working program control testing). |

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| **AP Reference** | **Nature, timing and extent of audit/assurance procedures** | **Significant account / disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Done by and date** | **W/P Ref** |
| MCR | Verify that segmentation of both life and non-life insurance obligations is compliant with the Technical Specifications. Health insurance obligations should therefore be split into health insurance or reinsurance obligations, which are pursued on a similar technical to that of life insurance and health insurance or reinsurance obligations, which are not pursued on a similar technical basis to that of life insurance. | MCR |  |  |  |  |  |  |  |  |
| MCR | For the purpose of the Quantitative Assessment, verify that the capital add-ons set by the supervisory authority are taken into account. | MCR |  |  |  |  |  |  |  |  |
| MCR | Verify that the AMCR values (absolute floor of the MCR) used are compliant with the technical specifications. | MCR |  |  |  |  |  |  |  |  |

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| **AP Reference** | **Nature, timing and extent of audit/assurance procedures** | **Significant account / disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Done by and date** | **W/P Ref** |
| MCR | ***Linear formula component for non-life insurance or reinsurance obligations***  Verify that the formula covers all lines of business and respects the calibration of the factors *α* and *β* as mentioned in the MCR section of the Technical Specifications.  Verify that the technical provisions used in the calculation of *MCR linear non-life* exclude the risk margin. | MCR |  |  |  |  |  |  |  |  |
| MCR | ***Linear formula component for life insurance or reinsurance obligations***  Regarding the technical provisions used in the calculation of *MCR linear life*, verify that:   * They reconcile with the market value balance sheet * They exclude the risk margin   They are included after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, with a floor equal to zero. | MCR |  |  |  |  |  |  |  |  |

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| **AP Reference** | **Nature, timing and extent of audit/assurance procedures** | **Significant account / disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Done by and date** | **W/P Ref** |
| MCR | ***Linear formula component for composite undertakings***  Verify that the notional life MCR and notional non-life MCR are calculated in accordance with the technical specifications.  Verify that the notional Solvency Capital Requirement for non-life insurance or reinsurance activity is calculated in accordance with the technical specifications.  Verify that the notional Solvency Capital Requirement for life insurance or reinsurance activity is calculated in accordance with the technical specifications. | MCR |  |  |  |  |  |  |  |  |

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| **AP Reference** | **Nature, timing and extent of audit/assurance procedures** | **Significant account / disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Done by and date** | **W/P Ref** |
| MCR | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.  The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB.  The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports. | MCR |  |  |  |  |  |  |  |  |