**Preface**

This working program includes the substantive procedures to be performed regarding the audit of the Own Funds under Solvency II. This working program is based on the assumption that limited reliance will be put in place on internal controls. Based on the nature of Own fund items and the complexity involved a “substantive approach” will be more likely and efficient for the audit of the Own funds. As a result, it is expected that a full substantive approach will be adopted while setting up the audit strategy regarding the own funds.

It is also to be highlighted that the distinction of financial instruments between a financial liability and an equity instrument in accordance with *IAS 32 Financial Instruments: Presentation* (and its amendments) is already covered in the Audit/Assurance program with respect to the economical balance sheet, the latter reporting the excess of assets over liabilities and subordinated liabilities. Therefore, this working program only covers the procedures to be performed for the validation of the classification of the equity, liability and other instruments in eligible own funds determined by the insurance undertaking.

Based on the general principles and criteria set forth in the EIOPA’s technical standards, the following hierarchy is in place for the classification of basic own funds into Tiers and list of capital items:

1. Tier 1 Own Funds (restricted / unrestricted)

2. Tier 2 Basic Own Funds

3. Tier 3 Basic Own funds

4. Tier 2 Ancillary own funds

5. Tier 3 Ancillary own funds

These criteria also specify the eligibility rules that should apply for the Own Funds.

**I. Working program substantive procedures: Own Funds**

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| **Rationale for risk of significant misstatement assessment** | | **Risk of significant misstatement (ROSM)** |
| Inherent risk | Inherent risk is assessed as low since no significant uncertainty and judgments involved in the classification and eligibility of the own funds elements. Note that the assessment of inherent risk may be different in the event of fraud risk factors (which might arise if for example the entity is lacking eligible own funds to cover the MCR and SCR). | **LOW**  **MEDIUM**  **HIGH** |
| Control risk | Control risk is assessed as high given the underlying assumption of this working program is that no reliance (or only a very few) will be placed on internal controls in respect of the audit of the Own Funds. |

| **AP Reference** | **Nature, timing and extent of audit/assurance procedures** | **Reference to Solvency II Framework** | **Significant account / disclosure** | **Done by and date** | **W/P Ref** |
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|  |  | General references:   * Article 146 – 148 of the Solvency II Law of 13 March 2016 * Articles 69 - 73, 76, 77, 79 and 82 of Delegated Acts (including Amendment to Delegated Acts EC/2019/981) * **BNB/NBB Circular 2016\_08 to 11** |  |  |  |
|  | ***Substantive analytical procedures*** |  |  |  |  |
| 1 | Review / perform the variation analysis of own funds with the preceding period. Ensure that all significant fluctuations in items identified are adequately explained and reconciled to audited data. |  | Own Funds |  |  |
|  | ***Tests of details*** |  |  |  |  |
| 1 | Verify that, as specified in the Law of 13 March 2013, the Basic Own Funds consist of:   * The excess of assets over liabilities, which shall be reduced by the amount of own shares held by the insurance or reinsurance undertaking * Subordinated liabilities | General references:   * Article 141 of the of the Solvency II Law of 13 March 2013 (“the Law of 13 March 2013) | Own Funds |  |  |
| 2 | Review reconciliations of the different elements used for the determination of the Own Funds with the total amount of Own Funds included in the economical balance sheet. Follow up where differences have been found. |  | Own Funds |  |  |
| 3 | Review the appropriate classification of the Own Funds components prepared by the Company and assess whether this classification is in line with the requirements of EIOPA and the guidelines of BNB/NBB Circular 2016\_11:   * Unrestricted Tier 1 Basic own-funds * Restricted Tier 1 Basic own-funds * Tier 2 Basic own-funds * Tier 3 Basic own-funds * Ancillary own-funds (Tier 2 / Tier 3)   In order to review the classification, an explicit link with the statutory accounts and economical balance sheet is required in order to assess the appropriateness of the different own fund items identified by the company (e.g. retained earnings, reconciliation reserve). Furthermore, a particular attention is to be paid to hybrid instruments and other atypical own fund items (e.g. subordinated debts) in order to assess whether all the conditions set forth in the technical specifications have been respected (including the “tiering” of these items).  Verify if the approval process for the item’s assessment and classification has been respected for own-fund items, which are not included in the list of own-funds items set out in Articles 69, 72, 74, 76 and 78 of the Delegated Acts. | General references   * Article 146 of the Law of 13 March 2016 * Guidelines in **BNB/NBB Circular 2016\_11**   Basic Own funds   * Applicable for all Tiers: * **BNB/NBB Circular 2016\_11** * Tier 1 items **BNB/NBB Circular 2016\_11** * Articles 69 to 71 of the Delegated Acts * Tier 2 items * **BNB/NBB Circular 2016\_11** * Articles 72 to 73 of the Delegated Acts * Tier 3 items * Guidelines in **BNB/NBB Circular 2016\_11** * Articles 76 to 77 of the Delegated Acts | Own Funds |  |  |
| 4 | Verify if the basic own funds have been properly reduced by the full value of participations in a financial and credit institution that exceeds 10 % of items included in points (a) (i), (ii), (iv) and (vi) of Article 69 of the Delegated Acts.  With that regard, assess whether the classification of participation is in line with the Guidelines set out in BNB/NBB Circular 2016\_08 (Guidance 01) and article 15, 47°, 48° or 49°, b) of the Law of 13 March 2016 | * Approval process: * **BNB/NBB Circular 2016\_11** andArticle 79 of the Delegated Acts * **BNB/NBB Circular 2016\_09** * Treatment of participations in the determination of basic own funds: * Article 68 of the Delegated Acts. * **BNB/NBB Circular 2016\_08**   Ancillary own-funds:   * Articles 142, 143, 146 - 149, 367 and 381 of the Law of 13 March 2016 * Guideline 4 of **BNB/NBB Circular 2016\_09** * Articles 74 to 75 and article 78 of the Delegated Acts |  |  |  |
| 5 | Ensure that for ancillary own funds the conditions and the Supervisory approval process for the utilization of these components as part of Own Funds have been respected.  Ancillary Own Funds consist of:   * Unpaid share capital or initial fund that has not been called up * Letters of credit and guarantees * Any other legally binding commitments received by insurance and reinsurance companies, other than Basic own funds | Approval process:   * **BNB/NBB Circular 2016\_09** * Article 62 to 67 and Article 79 of the Delegated Acts   Conditions to be fulfilled:   * Guidelines 2, 3, 5 and 6 of **BNB/NBB Circular 2016\_09** | Own Funds |  |  |
| 6 | Check whether the eligibility criteria for the different components of Own Funds to cover the SCR/MCR have been respected.  With regards to the SCR, verify that:   * The eligible amount of Tier 1 items shall be at least one half of the SCR * The eligible amount of Tier 3 items shall be less than 15% of the SCR * The eligible amount of own funds to cover the SCR shall be equal to the sum of the amount of Tier 1, the eligible amount of Tier 2 and the eligible amount of Tier 3 * The sum of the eligible amounts of Tier 2 and Tier 3 items shall not exceed 50% of the SCR | Article 82 of the Delegated Acts | Own Funds |  |  |
|  | With regard to the MCR, verify that:   * The eligible amount of Tier 1 shall be at least 80% of the MCR * The eligible amounts of Tier 2 items shall not exceed 20% of the MCR * The eligible amount of basic own funds to cover the MCR shall be equal to the sum of the amount of Tier 1 and the eligible amount of basic own-fun classified in Tier 2 |  |  |  |  |
| 7 | If applicable, review the appropriate application of the dispositions with respect to ring-fenced funds and matching adjustment portfolios for the determination of own funds corresponding to these ring-fenced funds and portfolios | * Articles 80 to 81 of the Delegated Acts * **BNB/NBB Circular 2016\_07** | Own Funds |  |  |
| 8 | Review the QRT’s relating to own-funds, reconcile with underlying schedules and check that presentation is consistent with the relevant principles and guidance |  | Own Funds |  |  |
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|  | Update and amend, if appropriate, the assessment of ROSM and the rationale, and re-evaluate the planned audit/assurance procedures. |  |  |  |  |