**Preface**

This working program includes the substantive procedures to be performed with respect the audit of the risk margin. Based upon our experience of the insurance market and knowledge of the Solvency II guidelines with respect to the risk margin, it is expected that for a vast majority of the Belgian insurance companies a simplification method will be used for the determination of the risk margin. Considering also the fact that the inputs for the determination of the risk margin (mainly SCR calculations for the different risk components) are part of other specific working programs, a “substantive approach” will be more efficient for the audit of the risk margin compared to a controls based approach. This working program has therefore been prepared based on the assumption that limited reliance will be put in place on internal controls and that a full substantive approach will be adopted while setting up the audit strategy regarding the risk margin.

The calculation of the risk margin requires projection of future SCR’s for the various risk components. Based on the general principles and criteria set forth in the EIOPA’s technical specifications, the following hierarchy should be used as a decision basis regarding the choice of (non-simplified and simplified) methods for projecting future SCRs:

1. Make a full calculation of all future SCRs without using simplifications.

2. Approximate the individual risks or sub-risks within some or all modules and sub-modules to be used for the calculation of future SCRs.

3. Approximate the whole SCR for each future year, e.g. by using a proportional approach.

4. Estimate all future SCRs “at once”, e.g. by using an approximation based on the duration approach.

5. Approximate the risk margin by calculating it as a percentage of the best estimate.

When choosing the calculation method, it is however not required that the complexity of the calculations should go beyond what is necessary in order to capture the material characteristics of the insurance undertaking’s risk profile. Therefore, it is assumed that most companies will most likely opt for a simplified method (level 2 or level 3) instead of for a full calculation of all future SCR’s without using simplifications.

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

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

During the execution of the audit/assurance procedures on the risk margin 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 risk margin. The statutory auditor will in particular perform the necessary inquiries with respect to the work performed by the actuarial function as well as an in-depth review of the reports issued by the actuarial function, given that under the Solvency II Law of 13 March 2016 this function is responsible to:

* coordinate the calculation of the technical provision (which includes the risk margin);
* ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provision;
* assess the sufficiency and quality of the data used in the calculation of the technical provision;
* compare the technical provision against experience;
* inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provision; and
* oversee the calculation of the technical provision in the cases set out in the Solvency II Law of 13 March 2016.

When the statutory auditor decided to rely (partly) on the work performed by the actuarial function or any other (management) expert, it follows the requirements set forth in 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 the expert. Once the auditor has determined to use the work of the expert, it will:

* evaluate the competence and capabilities of the expert;
* evaluate the objectivity of the expert;
* obtain an understanding of the 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).

1. **Working program substantive procedures: Risk Margin**

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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 calculation of the risk margin using a simplified method as set forth in the technical standards of EIOPA. | **LOW**  **MEDIUM**  **HIGH** |
| Control risk | Control risk is assessed as high given that no reliance (or only a very few) will be placed on internal controls for the audit of the risk margin. |

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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** |
|  | ***General***  In general, reference is made to   * Delegated Act 2015/35 (article 37-38) |  |  |  |  |  |  |  |  |  |
|  | ***General*** |  |  |  |  |  |  |  |  |  |
| 1 | Review the appropriateness of the entity's approach to calculate the risk margin including the appropriateness of the simplification method selected) and assess whether this approach is consistent with the requirements set forth in the technical standards issued by EIOPA and with industry practice. In this context, particular attention is to be paid to:   1. Simplification applied (is it appropriate) 2. Completeness of the different SCR components for the determination of the risk margin 3. Drivers selected to project future SCR’s (or risk components of the SCR) 4. Granularity 5. Selected cost-of-capital rate 6. Discount rate   Method used to allocate the calculated risk margin of the overall business to the different lines of business | Risk Margin |  |  |  |  |  |  |  |  |
| 2 | Check the (re)insurance company’s justification for any simplification used when calculating the Risk Margin | Risk Margin |  |  |  |  |  |  |  |  |
| 3 | Check if the Risk Margin calculation is performed separately for each line of business (LoB) / for life and non-life business. If not, check how the risk margin is allocated across each LoB and understand why this approach has been adopted |  |  |  |  |  |  |  |  |  |
| 4 | Review consistency of the methods applied with prior years, and in case of changes, ensure that these changes are justified and appropriate. |  |  |  |  |  |  |  |  |  |
|  | ***Substantive analytical procedures*** |  |  |  |  |  |  |  |  |  |
| **1** | Prepare an independent expectation of the risk margin (per line of business - LoB) by applying one of the simplification methods proposed by EIOPA (cf. above) for the determination of the risk margin and compare results with the company’s calculations. | Risk Margin |  |  |  |  |  |  |  |  |
| **2** | Analyze evolutions of the risk margin per line of business (LoB) with the preceding reporting period. Ensure that all significant fluctuations are adequately explained. | Risk Margin |  |  |  |  |  |  |  |  |
|  | ***Tests of details*** |  |  |  |  |  |  |  |  |  |
| **1** | Review reconciliations of the inputs used for the calculation of the risk margin calculation with audited data (i.e. output of the standard formula / internal model for the SCR’s of the various risk components) or other justifications.. Follow up where differences have been found. | Risk Margin |  |  |  |  |  |  |  |  |
| **2** | Review reconciliations of the parameters used for the allocation of the overall risk margin to the different lines of business with audited data or other justifications. Follow up where differences have been found | Risk Margin |  |  |  |  |  |  |  |  |
| **5** | Review the mathematical accuracy or reperformance of the calculations performed by the Company with respect to:   1. Future projection of SCR (or risk components) and check which risks have been included in the future SCRs. Check whether the appropriate correlation matrix has been taken into account; 2. Conversion of projected future risk components into future SCR components; 3. Application of the cost-of-capital rate used in addition to the basic risk free yield curve without applying a volatility adjustment or a matching adjustment in order to calculate the risk margin; 4. Discounting of projected cost-of-capital; 5. Keys applied for the allocation of the overall risk margin to the different lines of business; 6. Allocation of the overall risk margin to the different lines of business. | Risk Margin |  |  |  |  |  |  |  |  |

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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** |
| **6** | Review the QRT’s relating to the risk margin, reconcile with risk margin calculation’s output and check that entries have been applied in the correct positions consistent with the relevant principles and guidance. | Risk Margin |  |  |  |  |  |  |  |  |
|  | ***Fraud-related procedures, if applicable*** |  |  |  |  |  |  |  |  |  |
|  | Update and amend, if appropriate, the assessment of ROSM and the rationale, and re-evaluate the planned audit/assurance procedures. |  |  |  |  |  |  |  |  |  |