

# **INSTITUTE OF ACTUARIES OF AUSTRALIA**

## **NOTICE TO MEMBERS - INTERNAL & EXTERNAL PEER REVIEW**

Actuaries provide advice in terms of certain reserved statutory roles, but actuarial work is varied and extends well beyond those reserved statutory roles. Promoting the highest standards for the provision of actuarial advice, appropriate to the significance of the particular piece of advice, is a primary concern of the Institute. Internal and external peer review of actuarial work (discussed in further detail below) have a part to play in helping achieve these high standards of advice, and need to be understood in the context of other requirements of the Institute on actuaries.

The Institute Code of Professional Conduct requires actuaries not to provide actuarial advice beyond their range of relevant experience unless they take reasonable steps to obtain adequate guidance in that area. In addition, members are required to comply with Institute Professional Standards, and with all relevant legislation (including regulations, prudential standards, subordinate standards and rules). Finally, much actuarial work is complex and involves judgement as well as the application of actuarial techniques. As such, there will be situations where some form of consultation with another member is warranted.

The Institute encourages internal peer review of actuarial work generally, and external peer review of actuarial work where the advice has implications for good corporate governance, e.g. where the advice has material implications for employees, customers and/or shareholders of the client.

Internal peer review of actuarial work is usually undertaken by other actuaries within a company or by actuaries who are not necessarily at arms length from the actuary(s) who carried out the original work. Such review is valuable and encouraged, since it can be expected to identify errors, omissions and diversions from normal company (and, usually, professional) practice. However, internal peer review does not necessarily provide independence of thought and therefore is different to external peer review.

External peer review is review by another actuary who is independent of the actuary performing the original work, and includes a report containing an opinion on the work performed. As such, it provides those utilising the advice, such as the Board of the entity and APRA, with an independent view, in a similar way as does an audit of the financial statements.

APRA released GPS310 on 9 February 2006, which requires external peer review of specific statutory actuarial advice on general insurance valuations from 30 June 2006. APRA has also signalled the intention to extend this requirement to life insurance. The Institute supports these initiatives and has issued a Professional Standard 100 covering External Peer Review for General and Life Insurance.

There are other circumstances in which external peer review is likely to be appropriate, such as other material statutory actuarial advice, and key actuarial advice which is complex, high profile, politically sensitive or contentious, or which impacts many stakeholders.

Because of the special nature of external peer review, the Institute has issued a Professional Standard that must be followed by actuaries who are engaged to

undertake external peer review of any aspect of an actuarial valuation of general insurance liabilities or an actuarial valuation of life insurance policy liabilities, solvency requirements, capital adequacy requirements and management capital requirements. The standard sets out the specific requirements of the review and discusses how a peer reviewer is determined as external. Further Professional Standards will be developed in due course to cover other key practice areas, in particular superannuation.

Some actuarial work is subject to audit, generally as part of the audit of a company's financial statements. External review of the actuarial insurance liabilities by an actuary may occur during an audit, but the audit report does not generally include explicit reporting on the insurance liability. In contrast, external peer review provides such a report, including the reviewing actuary's conclusion. The parties should consider whether actuarial work undertaken during the external peer review and audit can be managed in such a way that review of statutory insurance liability advice is not duplicated.

This Notice to Members is for information only, and does not have the force of a Professional Standard.

22 March 2006