



Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s)

ICAEW welcomes the opportunity to comment on the *Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s)* published by EIOPA on 28 April 2016, a copy of which is available from this [link](#).

This response of 28 April 2016 has been prepared on behalf of ICAEW by the Financial Services Faculty. As a leading centre for thought leadership on financial services, the Faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The Faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 145,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2016
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact [include faculty, department or default email address:
fsf@icaew.com

icaew.com

MAJOR POINTS

Please see Attachment as submitted to EIOPA.

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
Name of Company:	ICAEW	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to CP16-002@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper on the proposal for implementing technical standards on special purpose vehicles.</p>		
Reference	Comment	
General Comment	<ol style="list-style-type: none"> 1. ICAEW fully supports the objective of improving the communication between statutory auditors and competent authorities supervising insurance undertakings and believes that this can deepen and enrich both auditors' and supervisors' risk assessments. We agree that there is the opportunity for regulators to derive more benefit from the knowledge and experience auditors have about the financial institutions they audit. We welcome the continuing consultation on how this can be best achieved through sharing information. 2. The importance of good communications and a good relationship between auditors and supervisors has long been promoted as it helps both parties achieve their overlapping but distinct objectives. To that extent it is a 'public good' as it serves 	

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
	the interests of wider society if these two key agents, auditor and supervisor, are able to share information pertinent to their respective roles.	
Introduction		
1.1		
1.2	3. Given the fact that EIOPA has investigated the current supervisory practices in close cooperation with the European Banking Authority (EBA) we recommend that EIOPA and EBA ensure that the final form of the guidelines about communication with the auditors would be aligned. This would assist in an effective and efficient implementation of the guidelines addressing similar issues across Europe.	
1.3		
1.4		
1.5		
1.6		
Guideline 1		
1.7		
1.8		
1.9		
1.10	4. We agree that the elements of communication should be proportionate with the insurance undertakings' size, internal organisation and nature, scope and complexity of their activities. However we feel the need to emphasise that this needs regular monitoring and the elements of communications need to be adaptable enough to allow for unplanned events. We feel that the principle as put forth is sensible, and of suitably high level to allow proportionate implementation based on the level of risk associated with the insurance undertaking.	
1.11		
Guidelines 2		
1.12		

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
1.13	<p>5. In the UK ICAEW worked with the Bank of England, Financial Services Authority and audit firms to develop a code of practice for the relationship between external auditors and supervisors, which was issued by the FSA in 2011. This was adopted by the Prudential Regulation Authority and the Financial Conduct Authority when they assumed their responsibilities. The code of practice describes expectations on the nature of the relationship and calls for monitoring of the quality of this relationship as well. It also sets out a standard agenda for bilateral meetings which makes clear to supervisors where they are expected and permitted to exchange views; it will contribute to the quality of external audits as well.</p>	
1.14	<p>6. The recommended procedures would also help EIOPA to enable European supervisors and auditors to enhance the quality of their dialogue. Supervisory practices vary across member states and a guidance issued by EIOPA could impede a level playing field between insurance undertakings. The scope and terms of this relationship can be determined in individual jurisdictions and should be clear to both the supervisor and the external auditor – for example, through guidance issued by the insurance supervisory authority.</p> <p>7. We have concerns regarding the suggestion in paragraph 1.14 that supervisors would have access to audit documentation. The audit documentation is prepared to enable the auditors to form an audit opinion on the financial statements only and its use would not be appropriate in the context of these guidelines. Furthermore this would compromise the confidentiality between auditors and insurance undertakings. We recommend that the wording “other audit documentation” is removed from the final text of the guidelines.</p>	
1.15		
Guideline 3		
1.16		
1.17	<p>8. We believe that constructive, two-way communication between auditors and supervisors can help each party, by enriching their knowledge and risk assessment processes and sharing any concerns and encourage our profession and the regulators to regularly engage in sufficiently frequent and constructive dialogue, both in terms of formal meetings, and more informally should this be</p>	

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
	considered an effective way of communicating more general ideas about the current environment and concerns.	
1.18	9. When performing a financial statement audit in accordance with internationally accepted auditing standards, the external auditor should communicate with management and/or those charged with governance about significant matters relating to financial reporting or supplementary matters, and these communications may be accessed by the supervisor. In the same manner, in certain jurisdictions, the external auditor may also have access to the supervisor's communications to the insurer. Given the benefits that may ensue, when communicating with management and/or those charged with governance of the insurance undertaking, both the supervisor and the external auditor should consider communicating with the insurer in writing about matters that may also be of interest to each other. These written communications would then form part of the insurer's records to which the other party should have access to.	
Guideline 4		
1.19		
1.20	10. We agree with the principle that that competent authorities should consider the appropriate number and role of the participants in the dialogue and recommend that the same principle is applied to auditors.	
1.21	11. It is important that the participants in the communications are informed of issues discussed without undue delay. In our experience bilateral meetings between external auditors and competent authorities are the most helpful way of information sharing and they tend to be more open and constructive than trilateral (supervisor/auditor/insurance undertaking) ones. We also stress the importance of safeguarding succession of the communication to ensure that discussions can be continued seamlessly regardless of turnover of staff on both sides.	
1.22	12. We believe that the participation of the public oversight body during the meetings of the supervisor and the auditors of individual insurance undertakings would compromise the effectiveness of such meetings. It may impair access to proprietary information and confidentiality. We therefore recommend that the public oversight body of auditors is only invited to meetings when the competent	

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
	supervisory authority of insurance undertakings meet the auditors collectively to discuss issues that affect the industry as a whole.	
Guideline 5		
1.23	13. We consider that the establishment of the appropriate frequency and timing of communications is the responsibility of both competent authorities and auditors and it requires regular monitoring to allow for sufficient adaptability.	
1.24		
1.25		
Guideline 6		
1.26	14. ICAEW is highly supportive of effective auditor supervisor dialogue, and played a large role in developing the model used in the UK. We would encourage EIOPA to emphasise the importance of the two-way dialogue within the guidelines. We feel that the ability and onus on both sides to share information about both entities and the industry will facilitate a greater and freer flow of information. This will allow both auditors and supervisors to make more informed risk assessments, which would have a positive impact on the quality of both audit and regulation.	
1.27		
Compliance and reporting rules		
1.28		
1.29		
1.30		
1.31		
Final provision on reviews		
1.32		
Annex I : Impact Assessment		
Section 1. Procedural issues and consultation of interested parties		

Comments Template on the proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings		Deadline 26 April 2016 23:59 CET
Section 2. Problem definition		
Section 3. Objective pursued	15. Considering the baseline scenario and the options described in the impact assessment we believe that proportional application of all the requirements with additional obligations achieves the objectives of the guidelines. Competent authorities and auditors should determine together the appropriate frequency of communication, but it should allow at least one annual bilateral meeting. At least one annual meeting between supervisors and auditors collectively would provide an appropriate balance of costs and benefits.	
Section 4. Policy options		
Section 5. Analysis of impacts		
Section 6: Comparison of options		
Section 7: Monitoring and evaluation		