

PEER REVIEW PROCESS - EXPLANATORY NOTE TO THE CODE OF PROFESSIONAL CONDUCT

Classification

Explanatory Notes are appendices to the Code of Professional Conduct. They serve to provide more information and elaborate on principles mentioned in the Code.

Abstract

This explanatory note provides guidance and information on principles of the actuarial code with respect to Peer Reviewing.

Purpose

The purpose of this Explanatory Note is:

- To define under what circumstances an actuary may or may not accept to review the work of another actuary.
- To clarify the basis of engagement between the reviewing actuary and the actuary whose actuarial advice is being Peer Reviewed, the conduct expected by the Profession of each party, and the dispute resolution procedures where the actuaries concerned do not agree with each other's findings.

This Explanatory Note does NOT define under what circumstances a Peer Review is required. That remains the ambit of the various practice-area-specific committees, as it is accepted that the approach to Peer Review can vary across practice areas.

Legislation or Authority

There is no mandatory Peer Review requirement by regulators or legislators as at the issue date of this Explanatory Note. This Explanatory Note is under the authority of the Professional Matters Board of the Actuarial Society of South Africa.

If there is a difference between this Explanatory Note and any legislation, the legislation takes precedence. In this context, legislation includes regulations under any Act, and includes "secondary legislation" (e.g. directives issued by a regulator).

Application

This Explanatory Note applies to actuaries acting as a reviewer and to actuaries being reviewed under a Peer Review (whether formal or informal), irrespective of the field of work.

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Status

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1. DEFINITIONS

1.1.1 **'Actuarial Advice'** means actuarial work performed by members of the Actuarial Society of South Africa.

1.1.2 **'Actuary'**, for the purposes of this Explanatory Note, means a member of the Actuarial Society of South Africa, whether a fellow member or not.

1.1.3 **'Peer Review'** means any review of the reasonableness of the Primary Actuary's Actuarial Advice by a Reviewing Actuary.

1.1.4 **'Formal Review'** means Peer Review requested by a Third Party, even if the Third Party is part of the same organisation as the Primary Actuary.

1.1.5 **'Informal Review'** means Peer Review requested by the Primary Actuary, where there has not been any Third Party requirement to do so.

1.1.6 **'Society'** means The Actuarial Society of South Africa.

1.1.7 **'Material'** means important or essential in the opinion of the Actuary. For this purpose, 'Material' does not have the same meaning as in South African accounting standards. 'Materiality' has a consistent meaning to 'Material'.

1.1.8 **'Primary Actuary'** means the Actuary whose Actuarial Advice is being Peer Reviewed in terms of this Explanatory Note.

1.1.9 **'Reviewing Actuary'** means the Actuary reviewing the Primary Actuary's Actuarial Advice in terms of this Explanatory Note.

1.1.10 **'Third Party'** means a person, group or organization, other than the Primary Actuary and the Reviewing Actuary that requires a Peer Review to be conducted.

1.1.11 **'Written'** includes faxes, e-mails and other forms of documented electronic communication.

2. REQUIREMENTS AND SCOPE

2.1 Requirement Definition

2.1.1 If the Peer Review is a Formal Review, the Third Party defines the requirements. It is advisable that the Primary Actuary have sight of the requirements so that the context of the Peer Review is understood by the Primary Actuary.

2.1.2 If there is no Third Party or the Third Party is not in a position to define the requirements, the Primary Actuary defines the requirements (e.g. objectives) of the Peer Review.

2.2 Scope Definition

- 2.2.1 The Primary Actuary, Reviewing Actuary and Third Party, if applicable, should agree the scope of the Peer Review, taking cognisance of the requirements of the Peer Review.
- 2.2.2 It is advisable for the scope of the Peer Review to be documented. For a formal review, this would typically be done via terms of engagement / acceptance letter. The items to be contained in the terms of engagement / acceptance letter could include, but not be limited to, the following items:
- a) the objectives of the Peer Review to be performed (e.g. addressing client concerns, best practice, to ensure that discretion has been appropriately applied);
 - b) the information that will be provided to the Reviewing Actuary;
 - c) the access to the Primary Actuary's personnel that supported the Primary Actuary in producing the specific Actuarial Advice being reviewed, if any such access is to be included;
 - d) the aspects of actuarial work to be covered, e.g. data collection and verification, selection of assumptions, selection of methods, calculations, results and conclusions, etc.;
 - e) the completeness of the required components of the work;
 - f) the reasonableness of the results obtained;
 - g) the materiality of the Actuarial Advice being Peer Reviewed;
 - h) the format of the output to be generated. For a formal review, a formal report is best practice, and the scope should include clarification on the quality and reader friendliness of that final report on the Actuarial Advice;
 - i) a clause specifying the extent of accountability the Reviewing Actuary will take for the Actuarial Advice being Peer Reviewed. This clause can for example provide appropriate reliances & limitations, or indemnify the Reviewing Actuary from any action arising out of the Actuarial Advice that was Peer Reviewed.
- 2.2.3 The scope of the Peer Review should not extend to re-performing any work done by the Primary Actuary.
- 2.2.4 Any exclusion from the scope of the Peer Review should be specified explicitly.

3. ENGAGEMENT AND APPOINTMENT

3.1 Selection and Invitation of the Reviewing Actuary

- 3.1.1 In an Informal Review, the Reviewing Actuary should be selected by the Primary Actuary. In a Formal Review, the Third Party is responsible for selecting the Reviewing Actuary, but the Third Party may delegate this responsibility of selecting the Reviewing Actuary to the Primary Actuary, subject to the Third Party approving the selection.
- 3.1.2 When selecting the appropriate Reviewing Actuary, consideration should be given as to whether the Reviewing Actuary should be independent. Where relevant, the Primary Actuary should make the Third Party aware of the benefits of such an independent review. In a Formal Review, if the Third Party and Primary Actuary are not from the same organisation, it could be particularly relevant for the Reviewing Actuary to be independent.
- 3.1.3 If the Peer Review is a Formal Review and the Actuarial Advice is of a statutory nature (e.g. Statutory valuation), then the Reviewing Actuary should meet all the requirements for that primary role.
- 3.1.4 With the decision of the Reviewing Actuary having been taken, the Primary Actuary should approach him/her and discuss his/her willingness to undertake the Peer Review. While the preliminary discussions could be in person or telephonically, there should be a formal written request and written acceptance.

3.2 Terms of Engagement and Acceptance by the Reviewing Actuary

- 3.2.1 The Reviewing Actuary, when accepting the assignment, should consider the approach to the Peer Review, if he/she is sufficiently equipped in knowledge, qualification and experience to undertake the task, and whether he/she can spare the requisite time to do proper justice to the Peer Review.
- 3.2.2 Conflicts of interest of the Reviewing Actuary, in terms of the relationship with either the Primary Actuary or the entity for which the Actuarial Advice being reviewed was performed, should be declared upfront, in the context of personal, commercial and employment relationships. This can result in the appointment having to be declined, depending on the materiality of the conflict.
- 3.2.3 If the Reviewing Actuary had played a part in preparing the Actuarial Advice, it would not be appropriate for him/her to conduct the Peer Review and the invitation should be declined.
- 3.2.4 The Reviewing Actuary should be able to engage any previous reviewers of the Actuarial Advice being Peer Reviewed, or of any previous versions of the Actuarial Advice being Peer Reviewed, unless satisfactory reasons can be given for this not being possible or appropriate. The Reviewing Actuary should only accept the invitation if satisfied in this regard.
- 3.2.5 The Primary Actuary and the Reviewing Actuary should agree the scope of the Peer Review in writing.

- 3.2.6 The Primary Actuary should document in a Terms of Engagement what has been agreed. This can include:
- a) A broad specification of the Actuarial Advice to be reviewed.
 - b) The scope of the Peer Review.
 - c) The plan for the Peer Review, including any known / agreed timelines, dates of meetings, etc.
 - d) The availability of the Primary Actuary for necessary discussions during the course of the Peer Review, and for discussions of the final report.
- 3.2.7 For a Formal Review, the Reviewing Actuary should produce an Acceptance Letter containing, inter alia, the following unless already covered in the Terms of Engagement:
- a) Reference to the offer letter
 - b) Reference to the Terms of Engagement.
 - c) Acceptance of the offer and Terms of Engagement.
 - d) The remuneration to be paid for the Peer Review, if applicable, and who is responsible for this payment.
 - e) The Reviewing Actuary's professional details – Qualifications, present position, indications of any reviews done without infringing on their confidentiality.
 - f) Necessary access as required for the purpose of the review, to systems, procedures, records and reports.
 - g) Accessibility of other connected officials of the Company, including auditors, for any clarifications that may be required.
 - h) Acceptance that a copy of the Reviewing Actuary's conclusions contained in the final Peer Review Report may be provided to the Board, to management, to the auditors and/or regulators.
 - i) A confidentiality agreement document to be signed separately, if required.
 - j) Any further conditions the Reviewing Actuary would like stipulated.
- 3.2.8 For an Informal Review, acceptance in writing is still recommended, but reduced content can be agreed between the Primary Actuary and the Reviewing Actuary.
- 3.2.9 The Terms of Engagement and the written acceptance by the Reviewing Actuary should be the basis of any contract of engagement.
- 3.2.10 If there are any additional conditions stipulated in the written acceptance, which are not in the Terms of Engagement, the written acceptance should also be signed or otherwise clearly

agreed to by the Primary Actuary, signifying acceptance of these additional conditions.

- 3.2.11 The Acceptance Letter / Terms of Engagement from the Reviewing Actuary may place limitations on the access of the Reviewing Actuary to intellectual property of the Primary Actuary, such as proprietary actuarial models. Where the objective of the Peer Review requires access to such intellectual property, but such limitations exist, the Reviewing Actuary needs to consider whether the limitations will affect the integrity of the Peer Review prior to accepting the review.

4. PEER REVIEW OPERATIONAL METHODOLOGY

4.1 Review Methodology

- 4.1.1 The precise form of operation will vary from case to case, and the Primary Actuary and Reviewing Actuary are jointly responsible for making sure that an appropriate review methodology has been used.
- 4.1.2 The Peer Review should cover all relevant and significant aspects of the actuarial work as determined in the agreed scope. Nevertheless, the Peer Review is intended to be of high level, and so, for example, the review of the calculations could be confined to reviewing the results for reasonableness rather than carrying out specific checks.
- 4.1.3 It is not necessary that the Primary Actuary and the Reviewing Actuary meet face to face. For a Formal Review, it is required that the Primary Actuary and the Reviewing Actuary discuss the work in appropriate depth, and that these discussions be documented in sufficient detail to demonstrate that a professional and formal Peer Review has taken place.
- 4.1.4 If the Peer Review process is spread over a period of time or various elements, the requirements described above will apply to each element of the Peer Review. It is generally recommended that, unless there are specific reasons for doing otherwise, the same individual should be the Reviewing Actuary for all elements of the Peer Review.
- 4.1.5 It is acceptable for the Reviewing Actuary to delegate activities in some parts of the Peer Review, but this does not remove him/her from being personally responsible for all elements of the Peer Review. It is expected that he/she would not delegate activities and processes concerned with reviewing results and conclusions.
- 4.1.6 The responsibility for the work done by the Primary Actuary will always remain with the Primary Actuary. The Peer Review is a review, and as such does not provide a guarantee of the Primary Actuary's work.
- 4.1.7 The Reviewing Actuary should recognise that actuarial practice does vary and that the amount, and detail, of work undertaken by

the Primary Actuary on any matter will vary, depending upon the extent to which it is considered material.

- 4.1.8 The Reviewing Actuary should make an allowance for reasonable variation in terms of actuarial practice, including the materiality of the amount of detail required to perform a satisfactory job given the timing and cost constraints of the client. Such materiality will always require the exercise of judgement.

5. RELATIONAL FRAMEWORK

5.1 Professional Conduct

- 5.1.1 The Primary Actuary and the Reviewing Actuary shall fully cooperate with each other during the conduct of the Peer Review. The Primary Actuary should, to the best of his/her ability, provide the Reviewing Actuary with access to any documents or any additional explanations that may be needed in the course of the review.
- 5.1.2 The Reviewing Actuary shall maintain the confidentiality of all information obtained by him/her in the course of the Peer Review, except as covered in 5.1.3. In case of doubt, he/she should obtain the concurrence of the Primary Actuary before such information is divulged.
- 5.1.3 If the Reviewing Actuary, in the course of the Peer Review, discovers anything illegal or contrary to any rules or regulations of regulators or of the Society, he/she is expected to divulge such information to the relevant regulatory authority and/or the Society. If the Reviewing Actuary is uncertain how to handle such situation, he/she should seek council from the Society. This will not be considered to be in breach of the "confidentiality clause" in 5.1.2.
- 5.1.4 The scope of the Peer Review and the amount of work performed by the Reviewing Actuary can be changed after agreeing in writing to do this. The Reviewing Actuary should be aware of the perceptions of scope increases resulting in additional fees for the Peer Review, and scope increases should be in line with the agreed objectives of the Peer Review.
- 5.1.5 The Reviewing Actuary should be prepared to co-operate with subsequent Reviewing Actuaries, for similar pieces of work of the same Primary Actuary, if requested to do so by the Primary Actuary or Third Party.

5.2 Dispute Resolution

- 5.2.1 It is acknowledged that there can be differences in professional opinion between the Primary Actuary and the Reviewing Actuary. In such situations, there is an inherent need for communication between the Reviewing Actuary and the Primary Actuary. Recognising this, at the earliest opportunity, the Reviewing Actuary should discuss any such issues arising with the Primary Actuary at

the earliest possible opportunity, and try to come to some agreement before the Peer Review report is finalised.

- 5.2.2 If the Primary Actuary and Reviewing Actuary are unable to resolve an issue, it is necessary to consider whether:
- an appropriate additional party be requested to assist in resolving the issue, provided the means of paying for this service is agreed to, or
 - they document their differences of opinion or unresolved issues in one or both of their reports.

6. FINAL OUTCOME

- 6.1.1 On completion of the Peer Review, the Reviewing Actuary should prepare draft feedback in the agreed format for discussion with the Primary Actuary, on the issues raised in the review, for possible resolution by the Primary Actuary. Any such resolutions should be incorporated in the Primary Actuary's Actuarial Advice, where appropriate.
- 6.1.2 Where the agreed output of a Peer Review is a formal report, the report should include:
- a) a disclosure of any potential conflicts of interest, including any changes of circumstances, after accepting the appointment, that might create conflicts of interest, affect impartiality, facts not received or any issues that might influence the independence of the Reviewing Actuary;
 - b) the scope of the Peer Review and any deviation from it;
 - c) the differences of opinion between the Reviewing Actuary and the Primary Actuary, how these (in the opinion of the Reviewing Actuary) can potentially be resolved, and the materiality of these differences;
 - d) the estimated financial impact of any differences in terms of the Actuarial Advice, if this can be reasonably estimated by the Reviewing Actuary;
 - e) any reliances and limitations;
 - f) the conclusion on the overall Actuarial Advice that was Peer Reviewed;
 - g) a statement that the Peer Review has been carried out within the framework laid down by this Explanatory Note.
- 6.1.3 In the course of discussion between the Reviewing Actuary and the Primary Actuary, attempts should be made to resolve the issues brought out in the draft Peer Review feedback. To the extent that any of these issues are resolved, and are modified in the Primary Actuary's Actuarial Advice where agreed to do so, the Reviewing Actuary should remove them from his/her final Peer Review feedback.
- 6.1.4 Even if the Actuarial Advice is considered to be within the range of acceptable practice, since one of the purposes of the Peer

Review is to increase the overall quality of the Actuarial Advice, the Reviewing Actuary should advise the Primary Actuary on possible improvements, and the Primary Actuary should consider the advice being given. However, the Primary Actuary is not obliged to accept the recommendations. Any such advice should not appear in the final Peer Review feedback.

- 6.1.5 After discussion of the draft Peer Review feedback, and after resolution of some or all the issues raised, final Peer Review feedback will be presented by the Reviewing Actuary, in confidence, to the Primary Actuary. Under no circumstances should the Reviewing Actuary disclose any part of his/her feedback to another person, except for the final Peer Review report to the Third Party as discussed in point 6.1.8, without the consent of the Primary Actuary.
- 6.1.6 In a Formal Review, the Reviewing Actuary is acting on behalf of the Third Party, and the final Peer Review report MUST be released to the Third Party. However, the report should be discussed with the Primary Actuary and the Primary Actuary should have a chance to respond to issues raised before the final Peer Review report is presented to the Third Party.
- 6.1.7 The intention of a Peer Review is to do the review before the Actuarial Advice is released, but there may be circumstances where a post-release review is unavoidable. If the Actuarial Advice has already been released to the intended recipients, the Primary Actuary should consider whether it is necessary to modify the Actuarial Advice and present the changes to them. Any agreed modifications should be included in future Actuarial Advice given.
- 6.1.8 The responsibility for the contents of the Primary Actuary's Actuarial Advice is his/her own. He/she is under no obligation to alter his/her Actuarial Advice if convinced that his/her own view is correct, despite the differing view expressed by the Reviewing Actuary. It is also not necessary for the Primary Actuary to mention in his/her Actuarial Advice any such unresolved differences with the Reviewing Actuary. However, these differences will be detailed in the Reviewing Actuary's final Peer Review report.