

## Delegated Authority Quality Rating

This document has been prepared by Lloyd's for informational purposes only. It is intended to provide general guidance to delegated authority auditors and managing agents regarding their roles and responsibilities within the quality rating process.

### III. Auditor Quality Rating – the process

- Auditor Quality Rating – the process

Auditor quality rating scores are allocated to each applicable section of the current LMA coverholder / DCA audit scope that has been included in the final audit report. There are two additional sections that are also available for scoring, as listed under the numbers: 14 and 15 below:







Each section of the audit scope will be automatically pre-populated in Delegated Audit Manager based on the instructions provided by managing agents during the scoping stage. Managing agents will have the option to add or remove sections and rate them accordingly.

If an auditor identifies material findings during the review and includes an additional section in the audit report that was not originally requested, the auditor must first communicate this to the managing agent. In such cases, the additional section should be scored in accordance with the agreed process. If, however, an auditor mistakenly adds a section that was not requested and should not have been included, the managing agent should escalate the matter directly to the auditor and ensure that a corrected report is issued.

The auditor quality rating scores should be allocated after the nominated individual at the managing agent has reviewed the audit report and agreed the final recommendations. **Managing agents must ensure that only experienced and adequately skilled individuals are undertaking the scoring process.** If a junior or a new member of staff applies scores as part of their training, a peer review process should be implemented to review and agree the final rating outcome.

- Auditor Quality Rating – the scores

Managing agents will score each applicable section following completion of their TCFR/CFR case in Delegated Audit Manager (post audit findings and recommendations entry). Each section will be individually scored using a star system with numerical values allocated to each score as per the table below:

SCORE	SCORE VALUE
	2
	1.5
	1
	0

and the following score descriptions:



Score value: 2

- Auditor completed the assignment to a standard exceeding the managing agent's agreed requirements, including any bespoke instructions provided.
- Auditor conducted the audit process in the most effective and pragmatic way, conducting themselves throughout in a way that acknowledged above and beyond all needs of the managing agent and coverholder / DCA alike.
- Auditor produced a high-quality report against managing agent's standards / requirements, evidencing detailed root cause analysis, and providing high level of detail throughout the report. Strong observations and expert level recommendations are correctly and clearly evidenced in the report. Auditor recommendations entry on Delegated Audit Manager under TAFR/AFR case has been completed correctly.
- Auditor met the LMA audit scope format / requirements stated in the scope guidance document and the managing agent's specific reporting instructions to the highest level of detail.
- Auditor's understanding and knowledge of customer culture / outcomes and Financial Crime requirements was evidenced in the report to the highest level of detail.

- Auditor's understanding / knowledge / ability to ask correct questions about risk locations / licensing requirements; applicable local law and regulation specific to coverholder domicile was evidenced in the report to the highest level of detail.



Score value: 1.5

- Auditor completed the assignment to the managing agent's agreed standards / requirements, including any bespoke instructions, requested by the managing agent.
- Auditor conducted the audit process in an efficient and pragmatic way, conducting themselves throughout in a way that acknowledged the practical needs of the managing agent and coverholder / DCA alike.
- Auditor produced a good quality report against managing agent's standards / requirements, evidencing adequate root cause analysis, and providing sufficient detail throughout the report. Adequate observations and recommendations correctly and clearly referenced and evidenced in the report. No errors noted on auditor recommendations entry on Delegated Audit Manager under TAFR/AFR case.
- Auditor met the LMA audit scope format / requirements stated in the scope guidance document and the managing agent's specific reporting instructions without exceptions.

- Auditor's understanding and knowledge of customer culture / outcomes and Financial Crime requirements was correctly evidenced in the report.
- Auditor's understanding / knowledge / ability to ask correct questions about risk locations / licensing requirements; applicable local law and regulation specific to coverholder domicile was correctly evidenced in the report.



Score value: 1

- Auditor completed the assignment to the managing agent's agreed standards / requirements, including any bespoke instructions, requested by the managing agent but with some exceptions.
- Auditor conducted the audit process in a satisfactory way, conducting themselves throughout in a way that mostly acknowledged the practical needs of the managing agent and coverholder / DCA alike.
- Auditor produced an acceptable quality report against the managing agent's standards / requirements, some errors were identified resulting in the managing agent raising with the auditor some concerns / questions in order to fully utilise the report.

- Auditor's observations and recommendations provided in the report were mostly correct but on occasion required further evidencing or enquiry by the managing agent. Some errors noted on the auditor recommendations entry on Delegated Audit Manager under TAFR/AFR case.
- Auditor met the LMA audit scope format / requirements stated in the scope guidance document and the managing agent's specific reporting instructions with a number of variations.
- Auditor's understanding and knowledge of customer culture / outcomes and Financial Crime requirements / ability to ask the correct questions about risk locations / licensing requirements / applicable local law and regulations was partially evidenced in the report, resulting in managing agent's further referral / questions.





Score value: 0

- Auditor had not completed the assignment to the managing agent's agreed standards / requirements, including any bespoke instructions, requested by the managing agent.
- Managing agent and /or the coverholder / DCA has raised major concerns with the way the auditor conducted the audit process and corrective action was required.







- Auditor has produced an unsatisfactory report against managing agent's standards / requirements, a number of errors were identified resulting in managing agents' inability to utilise the report in selected section(s) or in its entirety.
- Auditor's observations and recommendations provided in the report are unclear and not evidenced correctly. Major errors noted on auditor recommendations entry on Delegated Audit Manager under TAFR/AFR case.
- Auditor failed to meet the LMA audit scope format / requirements stated in the scope guidance document and the managing agent's specific reporting instructions.
- Auditor's understanding and knowledge of customer culture / outcomes and Financial Crime requirements was either not evidenced in the report or evidenced in limited capacity.
- Auditor's understanding / knowledge / ability to ask correct questions about risk locations / licensing requirements; applicable local law and regulation specific to coverholder domicile was either not evidenced in the report or evidenced in limited capacity.

Prompted by the above descriptions, managing agents will record their scores on each section of the report at UMR level. Delegated Audit Manager rating cases will require managing agents to provide their specific feedback on each scored section and / or general feedback on the auditor's overall performance. This feedback will be visible between the managing agent and the auditor only and will be recorded for reference in the Audit Process tab in Delegated Audit Manager. Managing agents will be required to state specifically what improvements they would

recommend on auditors' delivery for each section that scored  or . These requirements will be visible between the managing agent and the auditor only and will be recorded for reference in the Audit Process tab in Delegated Audit Manager.

Overall auditor quality rating scores will appear in the auditor's Delegated Audit Manager RFI section along with the auditor's Delegated Audit Manager SLA performance dashboard. These will be available in Delegated Audit Manager for information only and managing agents will remain independent in the selection of their individual panels of auditors. Average scoring will be calculated by the automated algorithm set up in Delegated Audit Manager as illustrated in the following table and example scenario below.

<b>AVERAGE SCORE</b> <i>(Calculated per scope section as an average star rating based on individual managing agent scores allocation divided by the total number of scores)</i>	<b>OVERALL RATING</b> <i>(Minimum 5 scores requirement applies for score to be displayed)</i>
>1.76	
between 1.5 and 1.75	
between 0.90 and 1.49	
<0.89	

- Auditor Quality Rating – the results

The average and individual result of auditor rating can be accessed via the existing reporting functionality available for both registered auditors as well as managing agents in Delegated Audit Manager. The average score per section is also displayed under each audit firm's individual RFI case in Delegated Audit Manager. The logic of scoring and how it impacts the final results has been demonstrated via the example dummy scenarios below.

*\*The following scenario examples are based on four scope sections and 296 individual scores\*.*

'Audit Firm A' received a total of 296 managing agents' individual scores amongst the following four sections of the coverholder scope:


- A. Section 1: Underwriting – 100 scores
- B. Section 4: Claims Controls (With Authority) – 45 scores
- C. Section 14: Quality of findings and recommendations raised – 150 scores
- D. Section 15: Bespoke instructions by managing agent – 1 score

All scores are based on total of 296 UMR audit reports and are as per the following split, shown in sections A, B, C and D:

**A. Section 1: Underwriting**

- 5 managing agents scored Section 1 as ★ (score value: 0 each)
- 55 managing agents scored Section 1 as ★ ★ ★ (score value: 1.5 each)
- 40 managing agents scored Section 1 as ★ ★ ★ ★ (score value: 2 each)

The following illustrates the calculation behind the final score:

- $5 \times 0 = 0$
  - $55 \times 1.5 = 82.5$
  - $40 \times 2 = 80$
- 
- $0 + 82.5 + 80 = 162.5 / 100 = 1.62$

Based on the above scores, Audit Firm A's average overall score falls in the score range between 1.5 and 1.75, therefore the average score for the Underwriting section would be marked

as ★ ★ ★ .

**B. Section 4: Claims Controls (With Authority)**

- 40 managing agents scored Section 4 as ★★ (score value: 1 each)
- 5 managing agents scored Section 4 as ★★★ (score value: 1.5 each)

The following illustrates the calculation behind the final score:

<ul style="list-style-type: none"> <li>• <math>40 \times 1 = 40</math></li> <li>• <math>5 \times 1.5 = 7.5</math></li> </ul>		$40 + 7.5 = 47.5 / 45 = \mathbf{1.05}$
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Based on the above scores, Audit Firm A's average overall score falls in the score range between 0.90 and 1.49, therefore the average score for the Claims Controls (With Authority)

section would be marked as ★★.

### C. Section 14: Quality of Findings and Recommendations Raised

- 25 managing agents scored Section 14 as ★ (score value: 0 each)
- 95 managing agents scored Section 14 as ★ ★ (score value: 1 each)
- 30 managing agents scored Section 14 as ★ ★ ★ (score value: 1.5 each)

The following illustrates the calculation behind the final score:

- $25 \times 0 = 0$
  - $95 \times 1 = 95$
  - $30 \times 1.5 = 45$
- 
- $0 + 95 + 45 = 140 / 150 = \mathbf{0.93}$

Based on the above scores, Audit Firm A's average overall score falls in the score range between 0.90 and 1.49, therefore the average score for the Quality of Findings and

Recommendations Raised section would be marked as ★ ★ .

#### D. Section 15: Bespoke Instructions by Managing Agent

- 1 managing agent scored Section 15 as ★★★★★ (score value: 2)

The below illustrates calculation behind the final score:

- $1 \times 2 = 2$ 

 $2 / 1 = 2$

Based on the above scores, Audit Firm A's average overall score falls in the score range > 1.76, therefore the average score for the Bespoke Instructions by Managing Agent section would be marked as ★★★★★.

*\*In cases with a total of less than five scores, the average score will not appear in the RFI tab (see below), however, it will still be displayed on the managing agent's individual entry. It will be visible to both the managing agent and the auditor under the relevant audit case in the Audit Process tab in Delegated Audit Manager, alongside any feedback / comments made by the managing agent.*



The following illustrates how scores will be displayed in the Delegated Audit Manager RFI – Rating tab:

<b>Audit Firm A</b>		
<i>Scope Section</i>	<i>Average Score</i>	<i>Count of Ratings</i>
Section 1: Underwriting	★ ★ ★	51-100
Section 4: Claims Control (With Authority)	★ ★	11-50
Section 14: Quality of Findings and Recommendations Raised	★ ★	101-500
Section 15: Bespoke Instructions by Managing Agent	N/A	1-4 (No rating)