

Kate Czamara-Newton, Senior Manager, Market Engagement

## Delegated Authority Auditor Registration and Quality Rating - April 2022

This document has been produced by Lloyd's for information only and it is intended to provide general guidance for delegated authority auditors and managing agents on their roles and responsibilities under the auditor registration and quality rating process.

For further information on the auditor registration process / audit coordination and for all new audit firms looking to start their applications, please contact Lloyd's directly via email at: [delegatedauditmanager@lloyds.com](mailto:delegatedauditmanager@lloyds.com)

## **I. Auditor Registration and Quality Rating – the initiative’s origins and its purpose**

- The origin

The concept of auditor registration was introduced to provide assurance that delegated authority auditors meet the market’s requirements to deliver independent delegated authority reviews via the online platform known as the Delegated Audit Manager. The auditor registration also aims to provide managing agents with the confidence that coverholders and delegated claims administrators (DCAs) are audited by skilled practitioners who can demonstrate, on an ongoing basis, that they have the necessary abilities and experience to conduct delegated authority audits.

Auditor registration has been first introduced in 2018 and has been mandated since July 2020 for all audit firms wishing to conduct market coordinated audit via the Delegated Audit Manager. Auditor quality rating by managing agents has been implemented in late 2020 as a part of the new auditor registration requirements.

- The Trial

The auditor quality rating was developed by a sub-group of the Lloyd's Market Association (LMA) Delegated Authority Audit Group (DAAG), led by Lloyd's with representation from the market. The sub-group created the initial rating template which was put to test via the market trial. The trial took place between January and March 2020. A total of 12 managing agents rated performance of selected auditors across three coordinated audits of coverholders based in Canada, Europe, and the UK. Following feedback from the rating trial, a new version of the rating template was developed as per the details provided later in this document.

- The Purpose

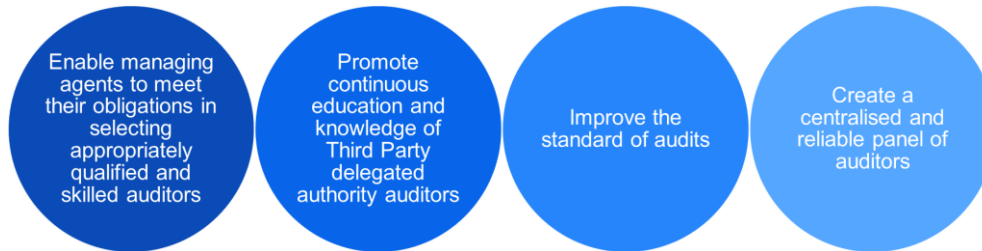
The auditor registration and quality rating process has been designed to help managing agents meet their obligations in selecting appropriately qualified, skilled, and experienced auditors. The audit registration provides a secure way for managing agents to access auditors due diligence and other important company details prior to selecting their auditor panels in the Delegated Audit Manager. The auditor quality rating enables managing agents to give feedback on the auditor's performance and to start an open dialogue between the managing agent and the auditor around the expected level of service and any required improvements. The auditors will, in turn, receive

not only a detailed rating but also constructive feedback that can improve the firm's internal staff training and quality assurance processes.

Auditor rating reports available in Delegated Audit Manager provide managing agents with a dashboard for quick and easy access to an aggregated view of auditors' skills and competencies, allowing to make an evidence-based assessment of performance.

## II. Auditor Registration – the process

Auditor registration is a means for Lloyd's to control auditors' system access to the Delegated Audit Manager platform and sets out the terms and conditions for their use of it. Its main objective is that auditors must meet the requirements for access to the system, providing managing agents with ability to select and approve their audit panels by using the centralised and automated set of auditors' due diligence and performance rating, securely stored in Delegated Audit Manager. In summary the auditor registration intends to:



- Four pillars

The audit registration was developed under the following 'four pillars' model:



*Continuous Education – requirement to complete key staff training and evidence CPD learning*

- The Request for Information (RFI) section of Delegated Audit Manager has been designed as a secure and smart way to log each individual auditor's training and qualifications along with an upload of auditor policies and procedures.
- Auditors' completion of in-house or specialist external training, including but not limited to the Chartered Insurance Institute's (CII) Broker Assess or equivalent, will meet the auditor registration minimum requirements. Auditors must upload certificates of completion to Delegated Audit Manager, detailing their ongoing professional training activities, including evidence of a minimum of 15 hours Continuing Professional Development (CPD). Lloyd's register centrally the training evidence via the annual RFI submission in Delegated Audit Manager. However, **the responsibility for reviewing and approving the suitability of auditors' individual qualifications and training remains with managing agents** as they select their individual auditor panel each year.
- Lloyd's e-learning modules (UK-specific Financial Crime, Conduct and Complaints) has been made available to all registered auditors free of charge alongside other selected Lloyd's webinars. A number of Lloyd's e-learning modules and Market Engagement virtual webinars are CII accredited events and eligible for CPD learning.

*Suitable Processes – requirement to evidence a well-established key policies and procedures*

- Auditors on the Delegated Audit Manager panel must upload and update annually, under individual RFIs, their internal policies and procedures, including:

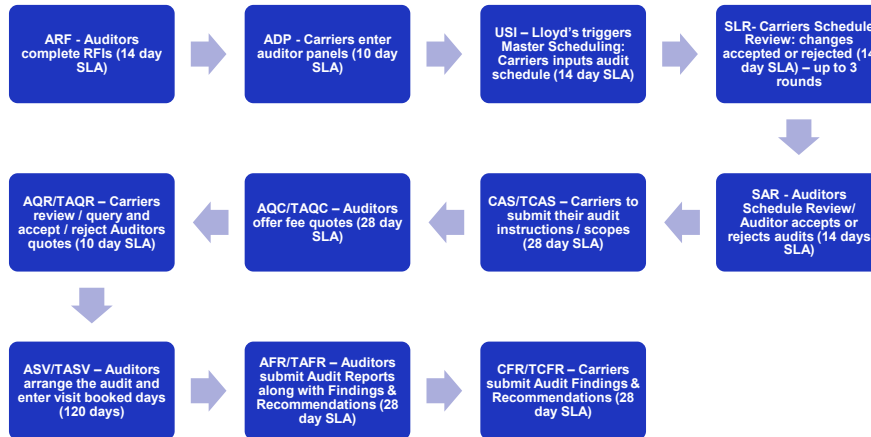
Professional Indemnity policy certificate
Business Continuity Plan
Conflicts of Interest policy and log
Data Protection
Privacy Notice
Information Security
Quality Assurance process

- Auditors must self-certify in Delegated Audit Manager that all information provided in their RFI is true and accurate. Lloyd's register centrally all documents via the annual RFI submission in Delegated Audit Manager. However, **the responsibility for reviewing and approving the suitability of auditors' individual policies and procedures remains with managing agents** as they select their individual auditor panel each year.



*SLAs – requirement to comply with the task deadlines set in Delegated Audit Manager*

- Due to a workflow nature of the audit coordination and multiple stakeholders’ involvement in the process, Service Level Agreements (SLAs) have been established and are imbedded within Delegated Audit Manager. Please see below for example of main SLAs currently in use:



- All registered auditors are required to comply with the set SLAs and the performance against these is monitored by both Lloyd's and managing agents, utilising current reporting functionality in Delegated Audit Manager.
- Lloyd's oversees the ongoing performance against the system SLAs for both the registered auditors and managing agents. Auditors' underperformance against the set SLAs is reported to auditors in question, the LMA Delegated Authority Audit Group (DAAG) and it is also presented to managing agents prior to starting the process of annual audit scheduling.

### *Audit Quality Ratings – requirement to rate performance based on different types of audits*

- The auditor rating is intended to improve the standard of audits as it will provide a framework for managing agents to rate auditors' performance consistently and transparently, which in turn will enable audit firms to identify training and development needs for addressing any underperformance.
- Lloyd's monitors the performance of auditors against the Service Level Agreements (SLAs) that are imbedded within Delegated Audit Manager, as well as the ratings provided by the managing agents, and provides an annual report to the LMA Delegated Authority Audit Group (DAAG). The findings are also presented to managing agents prior to starting the

annual audit scheduling process. Consistently poor performance by an auditor, for example a one star rating and / or ongoing underperformance against the SLAs, will be escalated by Lloyd's (or a managing agent as appropriate) for review by the DAAG. **Dependent upon on the outcome of the review, the DAAG may propose to managing agents that the underperforming audit firm be removed from the auditor panel within Delegated Audit Manager.**

- Please see below for further details on the auditor quality rating.

### 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 scope will be automatically pre-populated by Delegated Audit Manager as per the instructions submitted by managing agents at the scoping stage. Managing agents will have the option to add or remove sections and rate them accordingly.

In cases where the auditor notifies material facts found during the review and adds a section in their audit report that was not requested initially by the managing agent, it would be expected that an auditor communicates / refers this first to managing agent. In this instance the additional section should be scored as per the agreed process. If, however, an auditor mistakenly adds a section that was not initially requested by the managing agent, and it should not have been added in the audit report this should be escalated by the managing agent to the auditor directly and the correct report should be re-issued as applicable.

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 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 above and beyond the managing agent's agreed standards / requirements, including any bespoke instructions requested by the managing agent.
- 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 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 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 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 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.

<p><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></p>	<p><b>OVERALL RATING</b>  <i>(Minimum 5 scores requirement applies for score to be displayed)</i></p>
<p>&gt;1.76</p>	
<p>between 1.5 and 1.75</p>	
<p>between 0.90 and 1.49</p>	
<p>&lt;0.89</p>	

- 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:

- $40 \times 1 = 40$
  - $5 \times 1.5 = 7.5$
- 
- $40 + 7.5 = 47.5 / 45 = 1.05$

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:

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

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)