

Audit of Companies Carrying on General Insurance Business

As the name suggests, this is an industry specific Guidance Note issued by the Auditing and Assurance Standards Board. The Guidance Note provides detailed guidance on various important aspects of the audit of companies in the business of general insurance. It deals extensively with the basic knowledge about the Industry, which the auditors need to possess to effectively conduct audit of a general insurance company. The Guidance Note begins with by giving a brief background of the insurance industry, evolution of the Industry, its regulation, organisation structure of the insurance companies, and the scope of the Guidance Note. The following is the gist of the topics dealt with by rest of the Guidance Note:

- *Principles of Insurance:* contract of insurance, principles of general insurance, classes of general insurance business, etc.
- *Legal Framework:* Insurance Regulatory and Development Authority Act, 1999 and Regulations framed thereunder, registration of insurance companies, licensing of insurance agents, requirements as to minimum paid up capital, deposits, important statutes as applicable to audit of general insurance companies, applicability of accounting standards, corporate governance, register of policies and returns, reports and returns to be furnished etc.
- *Accounting System and Framework:* features of accounting system in insurance companies, accounting records – periodic reports, workflow in general insurance companies, accounting framework, requirements of Schedule B to IRDA Regulations, 2000, requirements of the Insurance Act, 1938 vis a vis the Companies Act, 1956 etc.
- *Auditing Framework:* audit of accounts, qualifications, remuneration and powers of auditor, auditor's report, audit of branches vis a vis head office, auditing in IT environment, stages of audit, developing audit plan, coordination with branch management and branch auditor.
- *Internal Controls:* elements of internal control, specific control procedures in general insurance business, use of service

organisations, compliance with regulations, independent checks, internal audit, investigation and inspection; and audit procedures.

- *Audit at Branch/ Divisional Office Level:* books of account, items of revenue account – premium, claims commission, operating expenses, managerial remuneration, legal/professional charges, interest/ bank charges, depreciation, interest; and items relating to balance sheet – cash and bank balances, outstanding premium and agents' balances.
- *Audit at Head Office Level:* areas of audit, scrutiny of head office accounts, consolidation of head office and branch/divisional/ regional offices accounts, verification of revenue account and profit and loss account items, verification of balance sheet items etc.
- *Reinsurance: types of reinsurance* – bordereaux, cession, commission, line, reciprocity etc., accounting aspects, legal requirements, segment-wise audit of reinsurance, verification of inwards and outwards reinsurance, co-insurance.
- *Investments:* legal requirements, IRDA guidelines, prudential norms, other considerations, balance sheet disclosures, valuation of investments, investment committee, audit procedures – internal control evaluation, physical verification, reporting considerations.
- *Special Purpose Certification:* solvency margin, IRDA regulations, norms for valuation of assets and liabilities, statements of solvency margin, expenses of management, considerations for auditors The appendices to the Guidance Note contain diagrammatic representation of workflow in a general insurance business, format of financial statements, specimen auditor's report, requirements of section 619(3)(a) of the Companies Act, 1956, statement of assets and liabilities, and statement of solvency margins.

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