

Audit of Companies Carrying on Life Insurance Business

This Guidance Note is yet another in the series of industry specific Guidance Notes issued by the Auditing and Assurance Standards Board of the Institute and provides detailed guidance to the members in discharge of their work as an auditor of a life insurance company. The following points give a brief insight into the relevant aspects of audit of an insurance company covered by the Guidance Note:

- *Introduction*: evolution and regulation of the insurance business, organisation structure in a life insurance company, scope of the Guidance Note.
- *Principles of Life Insurance*: life insurance contract, risk, principles of life insurance, classes of life insurance policies – endowment, whole life, convertible whole life, money back, children's deferred assurance, pension plan etc.
- *Legal Framework*: insurer, registration of insurer, certification of soundness of terms of policy, appointment of actuary, regulation on advertisement, requirement of share capital and deposits, important provisions of Insurance Act, 1934, Insurance Rules, 1939, Companies Act, 1956, Income Tax Act, 1961, applicable accounting standards, corporate governance, statutory books and returns, valuation of assets, liabilities for solvency margin, valuation of assets and liabilities etc.
- *Accounting Framework and System*: accounting system, accounting records, workflow in life insurance companies, accounting framework, comparison of accounting treatments/ formats in pre and post IRDA period, accounting policies and information, signatures and reports to be attached with accounts and statements, conformity with accounting standards.
- *Auditing Framework*: audit of accounts, qualifications of auditor, appointment of auditor, remuneration of auditor, power of auditor, auditor's report, audit of branch vis a vis head office, engagement letter, developing audit plan and audit programme, coordination with branch management and branch auditor.
- *Internal Controls*: salient features in case of life insurance companies, specific internal control procedures in life insurance companies, use of service organisations, compliance with

regulations, independent checks, internal audit, investigation and inspection powers of IRDA.

- *Audit of Branch/ Divisional Office:* items under policyholders' account, limitation on expenses of management, funds for future appropriation.
- *Audit at Head Office:* areas of audit, scrutiny of head office accounts, consolidation of branch/divisional/ regional offices' accounts, verification of important items of revenue account, profit and loss account and balance sheet.
- *Audit of Reinsurance:* definitions, types, accounting aspects, legal requirements regarding reinsurance, segment-wise audit of reinsurance.
- *Investments:* legal requirements, IRDA guidelines, prudential norms, other considerations, balance sheet disclosures, valuation of investments, investment committee, audit procedures, reporting considerations. The appendices to the Guidance Note contain the Revenue Account and the specimen auditor's report.

Issued in January, 2002

Available only as a separate publication of the Institute (price: Rs. 150/-).

ISBN: 81-87072-73-3.

Ordering Information

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