

AUDIT OF GENERAL INSURANCE COMPANIES

Question 1

As the auditor of an Insurance company state the audit procedure you would follow to verify outstanding premium and agents balances. (4 Marks) (November 2008 & 2010)

Answer

The following are the audit procedure to be followed for verification of outstanding premium and agents balances in the case of Insurance Company.

- (1) Scrutinise and review control account debit balances and their nature should be enquired into.
- (2) Examine in operative balances and treatment given for old balances with reference to company rules.
- (3) Enquire the reasons for returning the old balances.
- (4) Verify old debit balances which may require provision or adjustment. Notes of explanation may be obtained from the management in this regard.
- (5) Check age-wise, sector-wise analysis of outstanding premium.
- (6) Verify whether outstanding premiums have since been collected.
- (7) Check the availability of adequate bank guarantee or premium deposit for outstanding premium.

Question 2

Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward in case of a General Insurance Company. (5 Marks) (November 2009)

Answer

Steps to be taken by an auditor for the verification of Re-insurance outward

- (1) The auditor should verify that re-insurance underwriting returns received from the operating units regarding premium, claims paid, outstanding claims tally with the audited figures of premium, claims paid and outstanding claims.

- (2) The auditor should check whether the pattern of reinsurance underwriting for outward cessions fits within the parameters and guidelines applicable to the relevant year.
- (3) The auditor should also check whether the cessions have been made as per the stipulation applicable to various categories of risk.
- (4) The auditor should verify whether the cessions have been made as per the agreements entered into with various companies.
- (5) It should also be seen whether the outward remittances to foreign re-insurers have been done as per the foreign exchange regulations.
- (6) It should also be seen whether the on cessions have been calculated as per the terms of the agreements with the re-insurers.
- (7) The auditor should verify the computation of profit commission for various automatic treaty arrangements in the light of the periodical accounts rendered and in relation to outstanding loss pertaining to the treaty.
- (8) The auditor should examine whether the cash loss recoveries have been claimed and accounted on a regular basis.
- (9) The auditor should also verify whether the claims paid item appears in outstanding claims list by error. This can be verified at least in respect of major claims.
- (10) He should see whether provisioning for outstanding losses recoverable on cessions have been confirmed by the re-insurers and in the case of major claims, documentary support should be insisted and verified.
- (11) Accounting aspects of the re-insurance cession premium, commission receivable, paid claims recovered, and outstanding losses recoverable on cessions have to be checked.
- (12) The auditor should check percentage pattern of gross to net premium, claims paid and outstanding claims to ensure comparative justification.
- (13) The auditor should also check that the re-insurers balance on cessions and whether the sub ledger balances tallies with the general ledger balance.
- (14) The auditor should review the individual accounts to find out whether any balance requires provisioning/write off or write back.
- (15) He should verify whether the balances with re-insurers are supported by necessary confirmation obtained from them.
- (16) He should verify whether opening outstanding claims not paid during the year find place in the closing outstanding claims vis-avis the reinsurance inwards outstanding losses recoverable on cessions appears in both opening and closing list. If not, the reason for the same should be analysed.

- (17) Any major event after the balance sheet date which might have wider impact with reference to subsequent changes regarding the claim recovery both paid and outstanding and also re-insurance balances will need to be brought out suitably.

Question 3

While auditing the claims paid in respect of a General Insurance Company what aspects need to be looked into?
(6 Marks) (May 2010)

Answer

Audit of the claims paid in respect of a General Insurance Company: The auditor may determine the extent of checking of claims paid on the same line as suggested for outstanding claims. Other aspects in respect of claims paid to be examined by the auditors are as follows:

- (i) that in case of co-insurance arrangements, claims paid have been booked only in respect of company's share and the balance has been debited to other insurance companies.
- (ii) that in case of claims paid on the basis of advices from other insurance companies (where the company is not the leader in co-insurance arrangements), whether share of premium was also received by the company. Such claims which have been communicated after the year-end for losses which occurred prior to the year end must be accounted for in the year of audit.
- (iii) that the claims payments have been duly sanctioned by the authority concerned and the payments of the amounts are duly acknowledged by the claimants;
- (iv) that the salvage recovered has been duly accounted for in accordance with the procedure applicable to the company and a letter of subrogation has been obtained in accordance with the laid down procedure;
- (v) that the amounts of the nature of pure advances/deposits with Courts, etc., in matters under litigation/arbitration have not been treated as claims paid but are held as assets till final disposal of such claims. In such cases, full provision should be made for outstanding claims;
- (vi) that payment made against claims partially settled have been duly vouched. In such cases, the sanctioning authority should be the same as the one which has powers in respect of the total claimed amount ;
- (vii) that in case of final settlement of claims, the claimant has given an unqualified discharge note, not involving the company in any further liability in respect of the claim; and
- (viii) that the figures of claims, wherever communicated for the year by the Division to the Head Office for purposes of reinsurance claims, have been reconciled with the trial balance-figure.

Question 4

State the disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company. (4 Marks) (May 2011)

Answer

Disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company: The following shall be disclosed by way of notes to balance sheet in respect of Contingent Liabilities.

- (i) Partly paid up investments.
- (ii) Underwriting Commitments outstanding.
- (iii) Claims, other than those under policies, not acknowledged as debts.
- (iv) Guarantees given by or on behalf of the Company.
- (v) Statutory demands/Liabilities in dispute, not provided for.
- (vi) Reinsurance obligations to the extent not provided for in the accounts.
- (vii) Others (to be specified).